LIBRARY

BOSTON
UNIVERSITY

Class No. *336.24
Book No. H53n
Acc. No. 33971
Date 6-20-45

BOSTON UNIVERSITY

College of Business Administration

THESIS

# Nature and Extent of the Massachusetts Income Tax

by

Mary Elizabeth Higgins
(B.B.A. Boston University 1939)

submitted in partial fulfillment of
the requirements for the degree of

Master of Business Administration

1945

6-20-45
33971
336.24
H53n

TABLE OF CONTENTS

| | Page |
|---|---|
| I- EARLY DEVELOPMENT OF INCOME TAX SYSTEMS | 1 |
| A. History | 1 |
| B. Principles of Taxation | 2 |
| C. Great Britain | 3 |
| 1. Scheduled Tax System | 4 |
| D. France | 4 |
| 1. Enactment of the Income Tax | 5 |
| 2. Unscientific Tax System | 5 |
| E. Germany | 6 |
| 1. Complicated System | 6 |
| F. United States of America | 7 |
| 1. Modern Income Tax | 9 |
| 2. Ability to Pay System | 9 |
| G. The Modern Income Tax | 10 |
| 1. Criticism | 11 |
| II- STATE INCOME TAX SYSTEMS | 14 |
| A. History | 14 |
| 1. Experimentation with the Income Tax | 15 |
| 2. Personal Net Income Taxes | 17 |
| B. Successful Income Tax Systems | 19 |
| C. The States Revenue | 20 |
| 1. Distribution | 22 |
| D. Diversity in State Income Tax Systems | 25 |
| 1. Personal Net Income Tax | 26 |
| 2. Diversity in Systems | 27 |
| 3. Income Brackets | 30 |
| 4. Diversity of Dividends and Capital Gains | 33 |
| E. Plan for Standard Tax Systems | 35 |
| 1. Personal Income Tax | 36 |
| III- FEDERAL VERSUS STATE INCOME TAX SYSTEMS | 39 |
| A. Elimination of Conflicting Taxation | 39 |
| 1. Centralization | 41 |
| 2. Federal Credits | 42 |
| 3. Segregation | 42 |
| 4. Intergovernmental Comity | 43 |
| B. Criticism of the Proposal | 44 |
| C. Solution of the Tax Conflicts | 46 |

TABLE OF CONTENTS - Continued


| | Page |
|---|---|
| VIII- FUTURE OF STATE INCOME SYSTEMS | 111 |
| A. Under State Control | 111 |
| B. Under Federal Control | 111 |
| C. Report of Special Commission on Taxation and Public Expenses | 112 |

LIST OF TABLES


| Table | | Page |
|---|---|---|
| I. | Percentage Relationship of National Income Tax Yields to the Total Tax Yields of Leading Commercial Countries, 1933-1936 | 13 |
| II. | States Income Tax Law Enactment Status | 16 |
| III. | State Personal Net Income Tax Yields and its Percentage Relation to Total State Revenue--Fiscal Years 1939-1942 | 21 |
| IV. | Distribution of State Income Tax Revenues, 1942 | 24 |
| V. | Diversity in Elements of State Personal Net Income Tax as of January 1, 1943 | 29 |
| VI. | Federal and State Income Tax Revenue | 40 |
| VII. | Percentage Schedule of Income Tax Levies | 93 |
| VIII. | Summary and Class Percentages of Total Income in Case Study | 95 |
| IX. | Frequency Table in Case Study | 96 |
| X. | Make-up of Income in Case Study | 97 |
| XI. | Percentages of Exemptions, Family, Tax and Social Security Deductions to Total Gross Income by Income Classes in Case Study | 102 |
| XII. | Income Levels in Case Study | 105 |
| XIII. | Per Cent of Make-up by Salary Level in Case Study | 106 |

# I. EARLY DEVELOPMENT OF INCOME TAX SYSTEMS

## A. History

In ancient times, the earliest property tax was imposed on land. Later, as a general property tax in Athens and Rome, it was broadened to include buildings, furniture, money, cattle, slaves, and other property, as well as land. However, the movable tangible property, as well as the lesser intangible property, were easily concealed from the taxing authorities and evasion resulted to some extent. (1)

Although it is uncertain when income taxes were first imposed, they were found in ancient China, Egypt, India, and Greece before the Christian era. In this simple economic period, there were few property forms such as cattle, sheep, and grain. The income tax was computed in physical units without considering the money value. Gradually, this tax merged into land and other property taxes. (2)

The history of property taxation was repeated in the medieval towns of European commercial countries and followed the same course as in ancient times. The City of Florence levied an income tax in the fifteenth century, but it was unsuccessful. However, with the advent of increased intangible property, taxation problems arose, while evasion

(1) A.G. Buehler, "Public Finance", McGraw-Hill Co., Inc. New York and London, 1940, p.409
(2) Ibid, p.523

prevailed to a greater extent. Thus the general property tax became impractical and inadequate for the taxing of the increased intangible property, as well as the movable personal property. At the end of the seventeenth century, the evolution retraced its steps, and all classes of property were exempted until only land and buildings remained. (1)

B. Principles of Taxation

Up to the time of Adam Smith, the great Scotch economist and founder of the science of taxation, no attention was given to the principles of taxation in practice. Furthermore, little consideration was given to the collection methods and the economic effect of taxation on the individual or the nation. The principal problem was to raise the necessary revenue through the imposition of taxes which were largely favorable to the wealthy and powerful. (2)

Although the principle of income taxes was used before the Christian era, it was not until the end of the eighteenth century that it was given scientific consideration. The income tax was first introduced by England in 1798, but it was repealed shortly afterwards; it was finally restored in 1842. However, in the twentieth century, this tax was introduced into France, Germany, and the United States as the

(1) A.G.Buehler, op.cit., p.523
(2) W.R.Green, "Theory and Practice of Modern Taxation", Commerce Clearing House,Inc., Illinois, 1938, p.1-2

general property tax was inadequate and unable to reach the enormous increase in intangible property for taxation; and the necessity and difficulty of raising sufficient revenue for governmental expenses during the First World War. (1)

Great Britain and Prussia were the first European countries to put the income tax principle into practice in their fiscal systems. There are material differences in their bases; however, it is the Prussian procedure of basing the tax rate upon the entire income, irrespective of source, that is the most commonly adopted by other countries. (2)

C. Great Britain

At the close of the eighteenth century, during the French Revolution, a progressive income tax was introduced into Great Britain, but it was repealed in 1802; however, in 1803, it was reinstated as a source of revenue to finance the Napoleonic wars. Due to strong opposition, it was repealed for a second time in 1816 and set aside for use in wars only. Nevertheless, in 1843, it again appeared on the statute books as a substitute for taxes on commodities and license taxes which were repealed during the period of free-trade. (3)

(1) A.G. Buehler, op. cit., p.524
(2) National Industrial Conference Board, Inc.,"State Income Taxes," National Industrial Conference Board, Inc., New York, Vol. 1, p.1
(3) A.G. Buehler, op. cit., p.526

1. Scheduled Tax System

The uniqueness of the English tax system is shown in its five schedules which are a part of the same tax, although taxed and collected separately at the source whenever possible. These schedules represent five classes of income as follows: Schedule A includes rentals from real estate; Schedule B, farmers' income; Schedule C, income from public fund investments; Schedule D, profits from mining, the trades, professions, and employments; and Schedule E, salaries of government employees. (1)

In 1910, progressive rates were introduced into the system which is based on the ability to pay principle. Great Britain leads all other nations in the practical and scientific application of taxation. (2) It is the pioneer in the adoption of the income tax which is now its major tax. (3)

D. France

Prior to the First World War, France had not adopted an income tax. During the war, the tax revenue was only 60 per cent of what was raised in 1913, due to the devastation of its richest and most productive agricultural and manufac-

(1) A.G. Buehler, op.cit., p.524
(2) Ibid, p.526
(3) W.R. Green, op.cit., p.237
(4) A.G. Buehler, op.cit., p.524

turing sections and the government's avoidance of additional taxes at that time. Since the majority of the French people continually opposed an income tax, a general sales tax was enacted; still, there was a deficiency in the revenue due to the extraordinary war expenditures. (1)

1. Enactment of the Income Tax.

After the First World War, the system of taxation in France consisted of conflicting laws and statutes. It lacked equality and justice as a whole, while the franc continued to fall and the deficit in the national revenue continued to increase. As a last resort, France passed an income tax law in 1914, but its operation was postponed until 1916; however, the scheduled income taxes were not introduced until 1917. Thus an advancement was made in the way of imposing taxes in accordance with the ability to pay principal. (2)

2. Unscientific Tax System

The French tax system compared with those in the United States and Great Britain, is unscientific and to some extent illogical since it is complicated and the taxes overlap. However, the French prefer the old indirect taxes, since they regard the new direct taxes with suspicion. For this reason, France still raises more of its national revenue

(1) W.R. Green, op. cit., p.13
(2) Ibid, p.14

by the sales tax, while the government fails to enforce the income tax properly. (1)

## E. Germany

To finance the First World War, Germany resorted principally to domestic loans. After the war, the currency depreciated to so low a value that the bonds securing these loans were practically repudiated, and all tangible property was practically confiscated. (2)

The income from intangible property declined greatly and the tax revenue accordingly. The high interest rates prevailing in Germany in addition to a very high rate of tax upon incomes caused a complete exhaustion of the capital resources. The ensuing financial disorder was so great that Germany could not raise sufficient revenue for its budget, or retain sufficient gold to secure its currency.

### 1. Complicated System

At this time an important change in this nation's policy was necessitated and an income tax, as complicated as that in France, was enacted. It follows the same general principles as those of the United States and Great Britain in that it has similar allowances. However, Germany favors large families since an employee with more than 10 dependent

(1) W.R. Green, op. cit., p.269
(2) Ibid, p.13

children is exempted from the special tax on salaries and wages. (1)

While Germany has a very high rate of tax on incomes, it is difficult to make a comparison with that of the other countries because of the taxation method used. In general, the rates are higher on small incomes than those imposed in the United States, and somewhat higher than those imposed in England for the taxation of wages and salaries. The amount of tax is specified instead of being fixed by a percentage. (2)

F. United States of America

As early as 1815, an income tax had been proposed in the United States, but it was not adopted. However, in 1861, Congress enacted the Civil War income tax, but it was abandoned in 1872. It was primarily a war tax, and as its need declined with the end of the war, there was agitation for its repeal.

In 1894, a second provision became a law. Immediately, the constitutionality of the tax was questioned in the case of Pollock v. Farmers Loan and Trust Company (157 U.S. 429; rehearing 158 U.S.601). (2) The question involved concerned the constitutionality of the Tariff Act of 1894 (Sec-

(1) W.R. Green, op. cit., p.286
(2) Ibid, p.285

tions twenty-seven to thirty-seven) in imposing a tax upon incomes. After a rehearing, the Supreme Court, by a majority of one, decided that the income tax as a whole was unconstitutional by the following decision:

> "We are constrained to conclude that Sections twenty-seven to thirty-seven inclusive of the act which became a law without the signature of the President on August 28, 1894 are wholly inoperative and void. Our conclusions may be summed up as follows:
>
> First. We adhere to the opinion already announced that taxes on real estate are equally direct taxes.
>
> Second. We are of the opinion that taxes on personal property or the income of personal property are likewise direct taxes.
>
> Third. The tax imposed by Sections twenty-seven to thirty-seven, inclusive of the act of 1894, so far as it falls on the property, being a direct tax within the meaning of the Constitution, and therefore unconstitutional and void because not apportioned according to representation, all these sections constituting one entire scheme of taxation are necessarily invalid." (1)

Thus this income tax law never became effective. It was referred to as an assault upon capital by one of the Supreme Court justices, while bitter opposition, as well as prejudice against it was shown by the people. It was considered a violation of the clause of the federal constitution by which direct taxes were apportioned among the states ac-

(1) U.S. Report number 158, "Cases Adjudged in the Supreme Court at October Term, 1894, 637

cording to population.

1. Modern Income Tax

However, the urgent need for additional revenue, started a movement to amend the constitution of the United States to permit the taxation of incomes by the Federal government. The result was the adoption of the Sixteenth Amendment to the Constitution on February 25, 1913, but it was on March 1, 1913, the income tax law was enacted. Thus Congress was given the power to lay and collect taxes on incomes from any source without the necessity of apportionment among the several states and the income tax became a permanent part of the tax system of the United States. (1)

2. Ability to Pay Principle

The ability to pay principle is the foundation of this tax levy as it is in Great Britain. The most serious objection is not to the principle, but to the application of excessive rates under it as during wars. During the First World War, rates levied upon incomes finally arose to 77 percent on the income above $1,000,000. (2)

The tax is separated into two divisions: the normal tax; and the surtax which is in addition to the former and graded in accordance to the net income. The amount of the

(1) National Industrial Conference Board,Inc., op.cit. p.2
(2) W.R. Green, op.cit., p.11

revenue necessary can be adjusted by raising or lowering the rates of both the normal and surtaxes. A deduction is allowed for dependents.

Although the income tax is apparently fixed in the national tax system of the United States and the progressive rates generally accepted, there are many complaints about the complications of the tax. It is expected that there will be defects in the income tax, since there is no such thing as a perfect tax.

### G. The Modern Income Tax

The science of taxation has made considerable advancement in the last 150 years and the systems of national taxation have been completely transformed since the First World War.

Today, practically all of the economists approve of the income tax, as it is adjustable more or less accurately to the ability to pay principle which prevents it from being disproportionate. (1) Both Great Britain and the United States recognize this principle to a greater extent than any other country and accept it as the foundation of their income tax levies. Every government allows some exemptions following the principles they have adopted.

(1) W.R. Green, op.cit., p.38

1. Criticism

Because of its elasticity, this modern income tax is readily progressive, while it taxes the rich more heavily than the poor. However, there are those who contend that there should not be any exemptions in order that even the poorest citizens should pay some tax to the government. This tax has been criticised as its revenue decreases during depressions, but this is true of all taxes.

It is impossible to make a true comparison as between the income tax yields percentages of their total national tax yields for the commercial countries as shown in Table I. This is due to the fact that these yields do not cover the same periods, while France and Germany include land, personal property, corporations or other taxes in their income tax yields.

However, in 1936, the income tax yield in Great Britain is important, as for that year alone, it supplied almost two-fifths of the total tax yield; in France during 1935, it was less than three-tenths, while other taxes were included; in Germany, 1933-1936, it was less than one-tenth with other taxes included here also; and in the United States, 1935-1936, it was less than one-fifth of the total tax yield, as shown in Table I.

Although continuous resistance was exerted in all these commercial countries to prevent the income tax from be-

coming a law, its practical and theoretical merits are now generally recognized, while its place is firmly established in these countries as a permanent feature of their fiscal systems. (1) It is considered the most just and fair of all taxes in operation. (2) Although previous to the First World War, it was comparatively unimportant, today it is the backbone of national tax systems in both the United States and Great Britain. (3)

(1) A.G. Buehler, op.cit., p.522
(2) W.R. Green, op.cit., p.41
(3) Fairchild, Furniss and Buck, "Elementary Economics", Macmillan Co., New York, 1936, Vol. II, p.52

PERCENTAGE RELATIONSHIP OF NATIONAL INCOME TAX YIELDS TO THE TOTAL TAX YIELDS OF LEADING COMMERCIAL COUNTRIES 1933-1936

| Country | Income Tax - Yield - | Total Tax |
|---|---|---|
| Great Britain (1936) | 31.9 | 81.6 |
| France (1935) | 20.8 | 71.1 |
| Germany (1933-1936) | 4.6 | 47.5 |
| United States (1935-1936) | 6.5 | 37.4 |

Note: Kind of Taxes included within the various classifications in different countries:

Great Britain - Income Taxes: Income, Surtax and Supertax

France - Income Taxes: Income Tax including Tax on Land (Income), other direct taxes and Tax on Income from Personal Property

Germany - Income Taxes: Income Tax (including Corporation Tax) State Citizen's Tax, Tax on Director's Bonuses and Equalization Fees

United States - Income Taxes: Personal Income Taxes

Tax Research Foundation, "Tax Systems of the World," Commercial Clearing House, Illinois, 1938, p.376

TABLE I

(1) Discontinued after World War II commenced

## II. STATE INCOME TAX SYSTEMS

### A. History

The origin of the state income tax movement dates back to the colonial times. In 1643, the laws of the New Plymouth colony designated faculty as a source of taxation as well as property.

In 1646, the Massachusetts Bay colony supplemented its poll and property taxes by a faculty tax upon the wages of laborers, tradesmen, and handicraft men. (1) The name faculty was given to this tax, because faculty was a factor in the capacity to acquire income through personal exertion and the colonists' purpose was to reach this income for taxation. Gradually, the efforts of the other colonies resulted in different forms of this tax. (2)

In 1738, the faculty tax was further developed when the income or profit of any trade, faculty or business was taxed; however, unlike the modern income tax, it was imposed on the estimated profits or income. At this period, recognition was given in Massachusetts to the ability to pay principle, while the product of the farms and the income of laborers and tradesmen were the measure of ability. (3)

(1) D.O. Kinsman, "The Income Tax in the Commonwealths of the United States", American Economic Association, Series III, Vol. 14, p.2
(2) E.R.A. Seligman, "Essays in Taxation", The Macmillan Co., New York, 1925, 10th. edition, p.339
(3) D.O. Kinsman, op. cit., p.

In 1821, the old term faculty was terminated by the act passed in Massachusetts when the term income was used for the first time. Thus the faculty tax was gradually discontinued in practice and closed about 1825. (1)

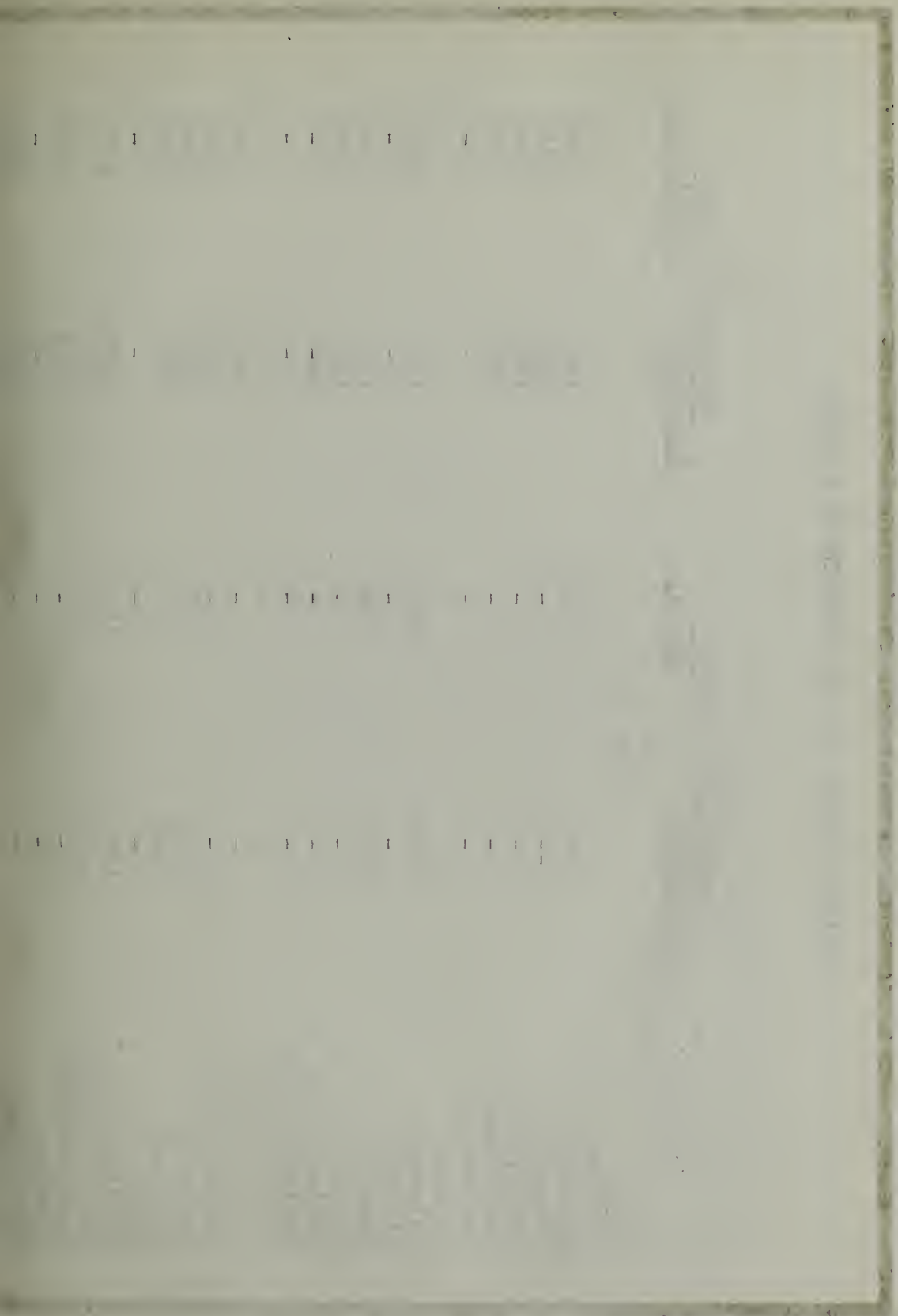
1. Experimentation with the Income Tax

Between 1820-1830, during the commercial expansion, Pennsylvania, Maryland, and North Carolina invested heavily in internal improvements. When the panic of 1837 occurred and the states had to meet their own financial responsibilities, they experimented with the income tax in an attempt to increase their revenue. (2)

In the period between 1840-1850, the income tax was adopted by Pennsylvania, Maryland, North Carolina, Virginia, Alabama, and Florida. Virginia and North Carolina were controlled politically by plantation owners who were endeavoring to equalize taxation by taxing the incomes of the professional men and merchants. The income tax imposed by Virginia in 1843 is sometimes called the first real income tax. It was in this period that the states began to tax actual instead of assumed incomes. (3)

Between 1860-1870, Missouri, Texas, Georgia, West Virginia, Louisiana, Kentucky, and Delaware enacted income

(1) National Industrial Conference Board, Inc., op.cit.,p.5
(2) D.O. Kinsman, op.cit.,p.110
(3) Ibid, p.111



## STATE INCOME TAX LAW ENACTMENT STATUS

| State | Nineteenth Century Enactment (4) | Nineteenth Century Repeal | Twentieth Century Enactment (5) | Twentieth Century Functioning |
|---|---|---|---|---|
| Alabama | 1843 | 1886 | 1933 | 1945 |
| Arizona | -- | - | 1933 | 1945 |
| Arkansas | - | - | 1929 | 1945 |
| California | - | - | 1935 | 1945 |
| Connecticut | - | - | - | - |
| Delaware | 1869 | 1872 | 1921 | 1945 |
| Florida | - | - | - | - |
| Georgia | 1863 | 1866 | 1931 | 1945 |
| Idaho | - | - | 1931 | 1945 |
| Illinois | - | - | - | - |
| Indiana (1) | - | - | - | - |
| Iowa | - | - | 1934 | 1945 |
| Kansas | - | - | 1933 | 1945 |
| Kentucky | 1867 | 1872 | 1936 | 1945 |
| Louisiana | 1865 | 1934 | 1934 | 1945 |
| Maine | - | - | - | - |
| Maryland | 1842 | 1850 | 1937 | 1945 |
| Massachusetts | - | - | 1916 | 1945 |
| Michigan | - | - | - | - |
| Minnesota | - | - | 1933 | 1945 |
| Mississippi | - | - | 1924 | 1945 |
| Missouri | 1861 | 1866 | 1917 | 1945 |
| New Hampshire (2) | - | - | 1923 | 1945 |
| New Jersey | - | - | - | - |
| New Mexico | - | - | 1933 | 1945 |
| New York | - | - | 1919 | 1945 |
| North Carolina | 1849 | 1921 | 1921 | 1945 |
| North Dakota | - | - | 1919 | 1945 |
| Ohio (3) | - | - | - | - |
| Oklahoma | | - | 1935 | 1945 |
| Oregon | | - | 1929 | 1945 |
| Pennsylvania | 1841 | 1871 | - | - |
| Rhode Island | - | - | - | - |
| South Carolina | 1861 | 1918 | 1926 | 1945 |
| South Dakota | - | - | 1935 | 1945 |
| Tennessee (2) | 1833 | 1931 | 1931 | 1945 |
| Texas | 1863 | 1868 | - | - |
| Utah | - | - | 1931 | 1945 |
| Vermont | - | - | 1931 | 1945 |
| Virginia | 1843 | - | - | 1945 |
| Washington | - | - | - | - |
| West Virginia | 1863 | 1863 | 1935 | 1945 |
| Wisconsin | - | - | 1911 | 1945 |
| Wyoming | - | - | - | - |
| *Colorado | - | - | 1937 | 1945 |

TABLE II

(1) Gross income tax
(2) Intangible property only
(3) Property tax on intangibles
(4) D.O. Kinsman, op.cit., p.110
(5) University of Denver, op. cit., p.2

tax laws which taxed salaries and certain kinds of income.

During the nineteenth century, under local administration, special and general income taxes were levied, and proportional and progressive rates were used. The states were experimenting with the income tax, but the laws were poorly drawn and evasion prevailed. After the Civil War, the income tax was abandoned in all the states except North Carolina, Virginia, Louisiana, and Tennessee. Later, these laws were repealed and net income tax laws were imposed in the twentieth century. However, in Massachusetts and South Carolina, the faculty tax evolved directly into the income tax, while some form of income was taxed from colonial times. (1)

2. Personal Net Income Taxes

Unlike the income tax laws of the nineteenth century, Wisconsin, in 1911, enacted a law with provisions for a centralized state administration. (2) It was immediately successful and imitated by twenty-five per cent of the states between 1911-1929 inclusive as shown in Table III. In the period between 1929-1935 inclusive, forty-four per cent of the states enacted income laws in order to equalize the tax burden between the property owners and the non property owners. This became necessary after the depression of 1929 when the property

(1) A.G. Buehler, op.cit., p.556
(2) Commerce Clearing House, "State Guide Service", Corporation Trust Co., New York, 1942-1943, p. 1611

tax revenue decreased.

At present, the income taxes are imposed upon all the net income or upon the income from intangible property. In the latter group are New Hampshire and Tennessee. (1)

However, there are thirty-one per cent of the states which have not levied an income tax on personal net income. These states are Connecticut, Florida, Illinois, Indiana, Maine, Michigan, Nebraska, Nevada, New Jersey, Ohio, Pennsylvania, Rhode Island, Texas, Washington, and Wyoming.

Of these states, Ohio legally defines and administers a tax on intangible property as a property tax. (2) Indiana enacted a gross income tax law in 1938, while Washington, Pennsylvania, and Illinois enacted income tax laws which the courts declared unconstitutional because they applied progressive rates.

There are eight industrial states which have not enacted an income tax law. They are Connecticut, Illinois, Indiana, Michigan, New Jersey, Ohio, Pennsylvania, and Rhode Island; they are some of the richest states per capita. (3)

In the states which are mainly agricultural, the farmers opposed the enactment of an income tax law as they

(1) Commerce Clearing House,"State Guide Service",op.cit.p.1611
(2) United States Department of Commerce, Bureau of Census, "State Finances",U.S.Gov.Ptg.Office,Wash.,D.C. 1941-1942
(3) Blakey & Johnson, "State Income Taxes", Commerce Clearing House, Inc., Chicago, Ill., 1942, p.117

fear the revenue will not be used to decrease their property taxes, and Florida expressly does not enact an income tax law.

B. Successful Income Tax Systems

Among the states which have been successful in the administration of the income tax are Wisconsin, New York, and Massachusetts. In 1911, Wisconsin enacted a general income tax law. Irrespective of source, the income received by the individuals from salaries; wages; business profits; rents from real estate; intangible property; dealings in tangible and intangible properties are taxable at progressive rates. Its success is due to a strong centralized administration. (1)

In 1919, New York also passed a general income tax law which imitated the federal income tax as closely as possible. Non-residents are taxed on their income secured within this state. In order to secure additional revenue without changing the basic rate, a flat or the same rate is imposed on the total income of each individual. (2)

Although Massachusetts imposes a classified flat rate income tax on certain classes of income and does not tax non-residents, its 1942 revenue was the third largest of the states. Its success is due to a strong centralized administration.

(1) Tax Research Foundation, "Tax Systems of the World", Commerce Clearing House, 1942
(2) A.G. Buehler, op.cit., p.563-566

## C. The States Revenue

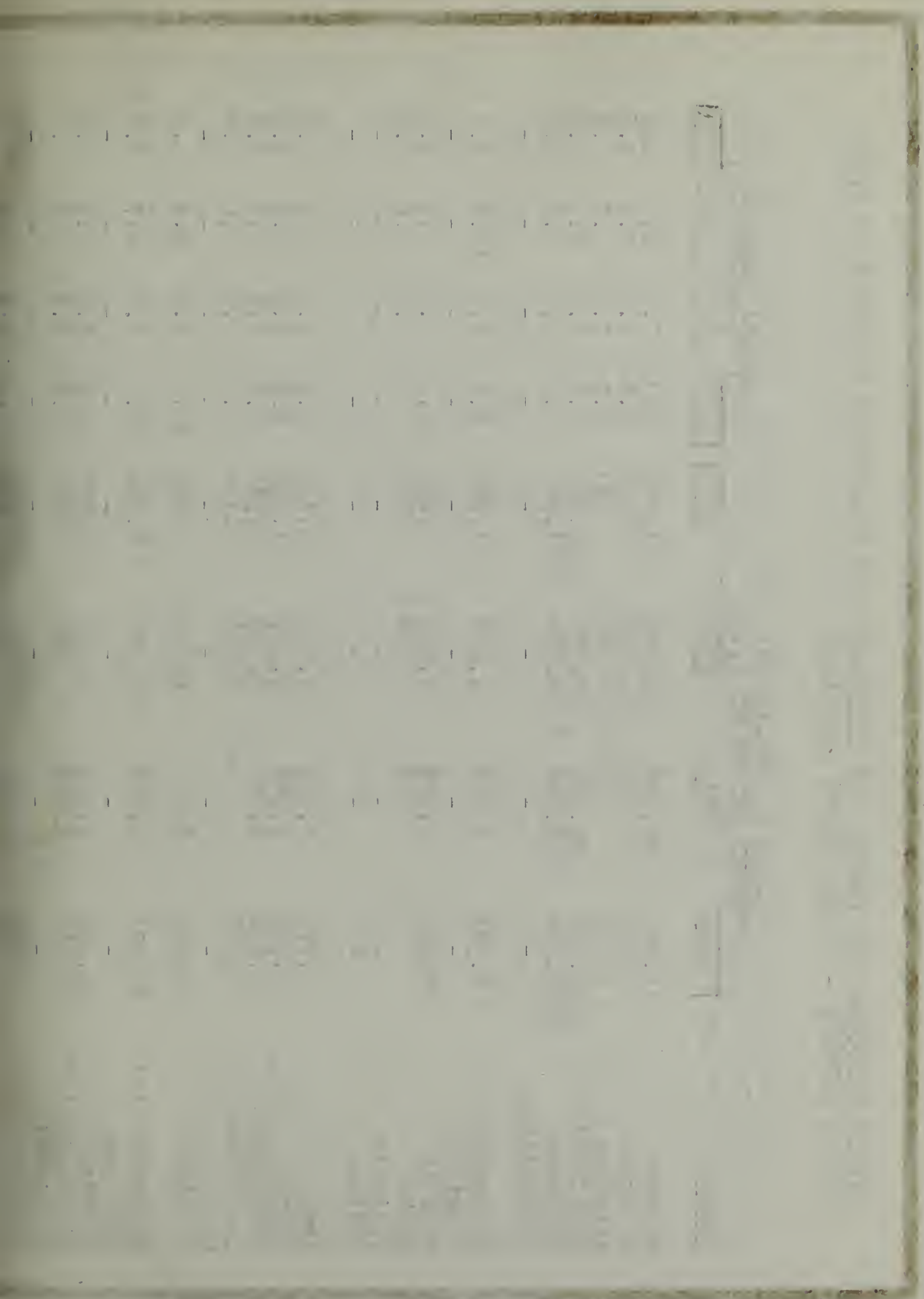
In the nineteenth century, Virginia was the only state that secured substantial revenue from the income tax. Furthermore, after the Civil War, the majority of the states repealed the income tax as it was failure due to poor administration.

In the early part of the twentieth century, this revenue was reported under special taxes and not as income taxes until 1933. In the period 1933-1935 there was a 93 per cent increase in the revenue, while in the period 1933-1938, the increase was 335 per cent due to more states enacting income taxes.

The total income tax revenue increased from 179 million in 1939 to 240 million in 1942 or 51 per cent. All the states, with a few exceptions, showed an upward trend for every year. However, variations among the states showed that nine of their total income tax revenues increased over 100 per cent, while seven others showed an increase of less than 50 per cent. (1)

The state's income tax revenue percentage of the state's total revenue was comparatively low since it ranged between .9 per cent and 16.6 per cent as shown in Table III. Maryland showed the sharpest rise from .9 per cent in 1939

(1) See Table III



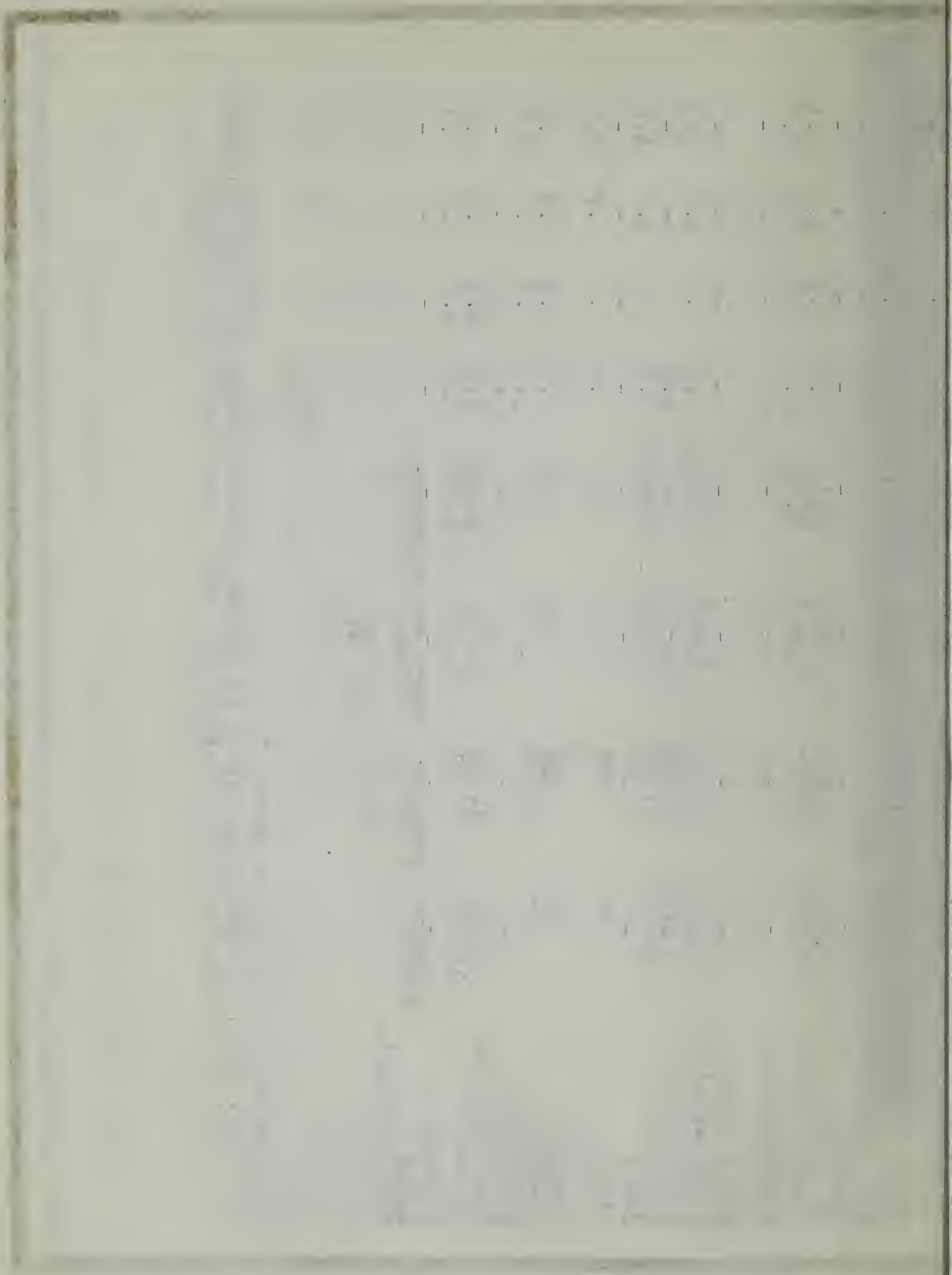
STATE PERSONAL NET INCOME TAX YIELD AND ITS PERCENTAGE RELATION TO TOTAL STATE REVENUE - FISCAL YEARS 1939-1942

| STATE | Income Tax Yield (2) (in thousands of dollars) 1942 | 1941 | 1940 | 1939 | Total Revenue (2) (in percentages) 1942 | 1941 | 1940 | 1939 |
|---|---|---|---|---|---|---|---|---|
| Alabama | $5,863 | $2,008 | $1,348 | $1,061 | 7.9 | 2.5 | 1.9 | 1.6 |
| Arizona | 815 | 510 | 462 | 372 | 2.4 | 1.9 | 1.8 | 1.7 |
| Arkansas | 1,125 | 517 | 389 | 343 | 2.0 | 1.1 | .9 | .8 |
| California | 29,024 | 20,287 | 19,570 | 20,672 | 5.6 | 4.5 | 5.0 | 5.6 |
| Colorado | 3,096 | 2,260 | 2,074 | 1,361 | 5.0 | 3.9 | 3.5 | 2.6 |
| Connecticut | - | - | - | - | - | - | - | - |
| Delaware | 1,515 | 1,553 | 1,654 | 1,085 | 9.4 | 9.5 | 10.8 | 7.0 |
| Florida | - | - | - | - | - | - | - | - |
| Georgia | 4,512 | 3,274 | 2,501 | 2,280 | 5.2 | 4.2 | 3.5 | 3.3 |
| Idaho | * | 898 | 704 | 520 | * | 3.9 | 3.6 | 2.9 |
| Illinois | - | - | - | - | - | - | - | - |
| Indiana | - | - | - | - | - | - | - | - |
| Iowa | 6,771 | 4,568 | 3,902 | 3,483 | 6.5 | 4.6 | 4.1 | 3.8 |
| Kansas | 2,572 | 1,542 | 1,315 | 1,325 | 3.9 | 2.5 | 2.6 | 2.5 |
| Kentucky | 3,830 | 2,745 | 2,345 | 1,941 | 4.6 | 3.6 | 3.3 | 2.9 |
| Louisiana | 3,687 | * | 2,568 | 2,344 | 3.3 | 2.5 | 2.6 | 2.4 |
| Maine | - | - | - | - | - | - | - | - |
| Maryland | 7,658 | 5,272 | 6,245 | 570 | 10.7 | 6.9 | 6.4 | .9 |
| Massachusetts | 24,234 | 20,962 | 20,291 | 8,966 | 14.3 | 9.4 | 4.7 | 5.5 |
| Michigan | - | - | - | - | - | - | - | - |
| Minnesota | 10,069 | 7,007 | 6,685 | 8,097 | 7.4 | 5.9 | 5.2 | 6.6 |
| Mississippi | 2,311 | 1,184 | 802 | 861 | 3.8 | 2.4 | 1.9 | 2.2 |
| Missiouri | - | (1) - | - | - | - | - | - | - |
| Montana | 852 | 660 | 543 | 435 | 3.1 | 2.6 | 2.1 | 1.9 |
| Nebraska | - | - | - | - | - | - | - | - |
| Nevada | | | | | | | | |
| New Hampshire | 675 | 619 | 562 | - | 2.8 | 3.0 | - | - |
| New Jersey | - | - | - | - | - | - | - | - |
| New Mexico | 831 | 259 | 215 | 268 | 3.2 | 1.1 | .8 | 1.1 |
| New York | 96,906 | 115,660 | 105,753 | 89,255 | 13.5 | 16.6 | 14.6 | 15.2 |
| North Carolina | 6,177 | 3,928 | 3,279 | 2,767 | 4.7 | 3.3 | 3.0 | 2.7 |
| North Dakota | - | (1) - | - | - | - | - | - | - |
| Ohio | - | - | - | - | - | - | - | - |
| Oklahoma | 3,573 | 2,425 | 2,403 | 2,469 | 3.4 | 2.9 | 3.0 | 3.1 |
| Oregon | 7,175 | 4,720 | 3,775 | 3,338 | 11.0 | 9.0 | 8.1 | 7.7 |
| Pennsylvania | - | - | - | - | - | - | - | - |
| Rhode Island | - | - | - | - | - | - | - | - |
| South Carolina | 2,358 | 1,850 | 1,427 | 1,186 | 3.7 | 3.6 | 3.4 | 2.9 |
| South Dakota | 371 | 614 | - | - | 1.6 | | - | - |
| Tennessee | 1,802 | 1,776 | 1,653 | 1,023 | 2.1 | | 1.8 | 1.6 |
| Texas | - | - | - | - | - | - | - | - |
| Utah | 1,277 | 888 | 795 | 680 | 3.6 | 2.8 | 2.7 | 2.4 |
| Vermont | 827 | 618 | 618 | 562 | 4.9 | 3.8 | 4.2 | 3.8 |
| Virginia | 3,121 | 2,568 | 1,943 | 2,161 | 3.0 | 2.8 | 2.5 | 2.8 |
| Washington | - | - | - | - | - | - | - | - |
| West Virginia | 2,474 | 1,753 | 1,596 | 1,311 | 2.8 | 2.3 | 2.2 | 1.9 |
| Wisconsin | 14,004 | 8,541 | 8,253 | 4,000 | 9.3 | 6.6 | 4.9 | 3.9 |
| Wyoming | - | - | - | - | - | - | - | - |
| Total | $248,483 | $224,734 | $205,670 | $164,736 | | | | |

*Not Available

TABLE III

(1) Includes Corporation Income Tax
(2) U.S. Dept. of Commerce, Bureau of Census, "State Finances", U.S. Gov. Ptg. Office, Washington, D.C., 1939, 1940, 1941, and 1942



to 10.7 per cent in 1942, followed by Massachusetts with 5.4 per cent in 1939 to 14.3 per cent in 1942. However, New York which was a leader up to 1941, declined in 1942 due to a 25 . per cent reduction in the tax rate of that year. Arkansas and New Mexico showed the lowest increase during this period, while California showed 5.6 per cent in 1939 and 1942, but a decline in the years 1940 and 1941.

However, in comparing these percentages from 1939 to 1942, it is noticeable that a decline seldom occurs from year to year in the individual states.

1. Distribution

There is diversity in the distribution of the income tax revenue. Some states return it to the original locality, thus the poorest locality receives the least. Arizona, Colorado, Massachusetts, Montana, South Dakota, Tennessee, Utah, Vermont and Wisconsin allocate specific amounts for schools, while Delaware, Minnesota, and New Mexico distributed 100 per cent of their income tax revenue for schools, Massachusetts, after deducting administration expenses, distributes the balance of its revenue to the cities and towns to relieve the property tax.

According to the 1941 United Census Bureau Report the income tax is a relatively unimportant source of state revenue. (1)

(1) Blakey & Johnson, op.cit., p.111

Referring to Table III, this statement appears to be correct as the highest state revenue since 1939 was 16.6 per cent of the states' total revenue. Yet in the 1941 Tax Yields claims that the income tax was a leading source of revenue that year in Massachusetts, New York and Wisconsin. Their percentages of total state revenue were 9.4 per cent, 16.6 per cent, and 6.6 per cent, respectively. However, the fluctuations in income tax revenue with the economic conditions are considered more a reflection on the instability of business than on the income tax. (1)

Nevertheless, its importance lies in the fact that it reaches intangible property for taxation without double taxation and lessens evasion. Under the general property tax, intangible property was assessed on its capital value at the same rate as real and personal property. Under the income tax method, it is assessed on its income only at a low rate as in Massachusetts at six per cent.

Under the old method, the property of the corporation was assessed on its value and its accompanying intangible property was also assessed on its value. Thus tax evasion resulted since no one declared intangible property for assessment.

(1) Richard A. Girard, "The Scope for Uniformity in State Systems", J.B. Lyon, Albany, N.Y., 1935, p.61

## DISTRIBUTION OF STATE INCOME TAX REVENUES

| State | Governments: State (4) | Governments: Local (4) | Purpose |
|---|---|---|---|
| Alabama | 100% | 0% | Debt Service |
| Arizona | 50 | 50 | Charity Fund & Schools |
| Arkansas | 100 | 0 | Debt Service |
| California | 100 | 0 | General Fund |
| Colorado | 65 | 35 | General Fund-Schools |
| Connecticut | 100 | 0 | General Fund |
| Delaware | 0 | 100 | Schools |
| Florida | - | - | - |
| Georgia | 100 | 0 | General Fund |
| Idaho | 100 | 0 | General Fund |
| Illinois | - | - | - |
| Indiana (1) | - | - | - |
| Iowa | 0 | 100 | General Fund |
| Kansas | 100 | 0 | General Fund |
| Kentucky | 100 | 0 | General Fund |
| Louisiana | 100 | 0 | Expense Fund |
| Maine | - | - | - |
| Maryland | 33 1/3 | 66 2/3 | General Fund |
| Massachusetts (5) | 0 | 100 | Property Tax Relief |
| Michigan | - | - | & Schools |
| Minnesota | 0 | 100 | Schools |
| Mississippi | 100 | 0 | General Fund |
| Missouri | 100 | 0 | General Fund |
| Montana | 75 | 25 | General Fund & Schools |
| Nebraska | - | - | - |
| Nevada | - | - | - |
| New Hampshire (2) | - | - | - |
| New Jersey | - | - | - |
| New Mexico | 100 | 0 | Schools |
| New York | 84.2 | 15.8 | General Fund |
| North Carolina | 100 | 0 | General Fund |
| North Dakota | 100 | 0 | General Fund |
| Ohio (3) | - | - | - |
| Oklahoma | 100 | 0 | General Fund |
| Oregon | 100 | - | General Fund |
| Pennsylvania | - | - | - |
| Rhode Island | - | - | - |
| South Carolina | 100 | 0 | General Fund |
| South Dakota | 65 | 35 | General Fund & Schools |
| Tennessee (2) | 55 | 45 | General Fund & Schools |
| Texas | - | - | - |
| Utah | 25 | 75 | General Fund & Schools |
| Vermont | Balance | $150,000 | General Fund-Roads & |
| Virginia | 100 | 0 | General Fund Schools |
| Washington | - | - | - |
| West Virginia | 100 | 0 | General Fund |
| Wisconsin | 40 | 60 | General Fund & Schools |
| Wyoming | - | - | - |

Table 1V.

(1) Gross Income Tax
(2) On intangible property only
(3) Property tax on intangibles
(4) Tax Research Foundation, "Tax Systems of the World", Commerce Clearing House, 1942, p.131-133
(5) Additional taxes: 10% to General Fund; 3% Old Age Tax

The distribution of state income taxes by the states results in the states receiving this revenue mostly for the general fund. The amount received towards this fund reduces the amount of the state tax imposed upon the cities and towns annually, unless the states expenditures are increased disproportionately. The real estate owners are those upon whom the state tax is apportioned proportionately as to the value of their property.

Because intangible property owners now pay an income tax instead of no tax under the general property tax, the real estate owners burden is proportionately decreased. (1)

D. Diversity in State Income Tax Systems

Due to the fact that a state has the right and power of self-government in taxation, various personal net income tax systems were developed by tax experts, as well as those inexperienced in tax matters. The result is diversity in the tax systems as well as in the individual taxes and their elements.

In the early colonial times when the general property tax was first put into effect, all property was agricultural and fairly divided. This form of uniform taxation was suitable at that time, but later with the advent of increased

(1) See Table IV.

number of corporations and their accompanying intangible property the property structure changed. Tax evasion and double taxation followed as tangible property and the intangible property representing it, were taxed at a uniform rate.

1. Personal Net Income Tax

Then there developed a trend to exempt the intangibles entirely from the general property tax, or to tax them at a low-rate property tax on capital value. Ten states adopted the first method and these are New York, Arizona, Delaware, Idaho, Mississippi, North Dakota, Utah, Wisconsin, Washington, and California. Pennsylvania, Florida, Connecticut, Rhode Island, Indiana, and Nebraska resorted to the last method. (1)

Today, there are only nine states which still tax intangibles under the original property tax after it was proven to be defective in principle and admittedly unenforceable in application. These states are Arkansas, Illinois, Nevada, Maine, Texas, Missouri, New Jersey, New Mexico, and Wyoming. (2)

In recent years, the personal net income tax, especially framed to reach intangible property was introduced

(1) University of Denver, op. cit. p.10
(2) University of Denver, "Taxation of Intangibles," University of Denver, Colorado, 1940, p.12

as the result of a movement to reorganize and strengthen the tax systems. It was intended as an equalizer for the tax burden between the property owning and non-property owning classes. It is recognized as the best method of exempting intangibles from the general property tax and thereby avoiding double taxation and lessening tax evasion.

In regards to the income tax, Buehler states, "this appeared to be the most logical and practical mode of reaching intangible property, for even under a low-rate property tax of three or four mills much intangible property is not assessed and that which is assessed, is not valued at a uniform proportion of its true value." (1)

2. Diversity in Systems

At the present time, 32 states have a personal net income tax, while Florida added a constitutional amendment not to levy an income tax. Proposals by several of the other states to authorize an income tax met with defeat. The states which have not enacted the modern personal net income tax are: Florida, Connecticut, Indiana, Illinois, Maine, Michigan, Nebraska, Nevada, New Jersey, Pennsylvania, Rhode Island, Texas, Washington, and Wyoming. (2)

(1) A.G. Buehler, "Public Finance," 2nd. Ed., McGraw-Hill Book Co., Inc., N.Y. and London, 1940, p.436
(2) U.S. Department of Commerce, Bureau of Census, "State Finances," U.S. Government Printing Office, Wash., D.C., 1942, p.13

Diversity is shown in the basis of taxation; the definition of net income; rates; exemptions; and even in the use of progression.

Bases diversity is exemplified where New York taxes general income, while Massachusetts taxes classified income, omitting that which is already adequately taxed as real estate. New Hampshire and Tennessee tax income from intangibles only. Three of the states tax all income from the same source at a flat rate, while the rates vary with the type of income. These states are Maryland, Massachusetts and Vermont.

A summary of the several state rates, minimum and maximum; personal exemptions; and dependents' allowances are presented in Table V where it is shown that 28 of the states have progressive rates and three of the others use flat rates.

a. Rate Diversity

Among the states using a progressive tax rate, the minimum range is between one per cent and three per cent. Eighteen states use the one per cent, while North Carolina is the only state to use the minimum of three per cent.

The maximum rate for these states ranges between three and 15 per cent, while 50 per cent of the states are in the group between three per cent and five per cent. North Dakota uses the highest maximum rate, 15 per cent, while Delaware uses the lowest rate of three per cent.

In the range between minimum and maximum rates,

DIVERSITY IN ELEMENTS OF STATE PERSONAL NET INCOME TAX AS OF JANUARY 1, 1943

| State | Tax Rates Applicable: Minimum | Income Brackets: Under | Income Brackets: Over | Maximum | Personal Exemptions: Single | Personal Exemptions: Married or Family Head | Dependents Allowance |
|---|---|---|---|---|---|---|---|
| Alabama | 1½% | $1,000 | $5,000 | 5% | $1,500 | $3,000 | $300 |
| Arizona | 1% | $2,000 | 9,000 | 4½% | 10 (deducted from tax) | 20 (deducted from tax) | (3) 4 |
| Arkansas | 1% | 3,000 | 25,000 | 5% | 1,500 | 2,500 | 400 |
| California | 1% | 5,000 | 30,000 | 6% | 2,000 | 2,500 | 400 |
| Colorado | 1% | 2,000 | 10,000 | 6% | 1,000 | 2,500 | 400 |
| Delaware | 1% | 3,000 | 10,000 | 3% | 1,000 | 2,000 | 200 |
| Georgia | 1% | 1,000 | 20,000 | 7% | 1,000 | 2,500 | 400 |
| Idaho | 1½% | 1,000 | 5,000 | 8% | 700 | 1,500 | 200 |
| Iowa (1) | 1% | 1,000 | 4,000 | 5% | 10 (deducted from tax) | 20 (deducted from tax) | (3) 5 |
| Kansas | 1% | 2,000 | 7,000 | 4% | 750 | 1,500 | 200 |
| Kentucky (2) | 2% | 3,000 | 5,000 | 5% | 1,000 | 2,500 | 400 |
| Louisiana | 2% | 10,000 | 50,000 | 6% | 1,000 | 2,500 | 400 |
| Maryland | 5% of investment income, if any, plus 2% of other income | | | | 1,000 | 2,000 | 400 |
| Massachusetts | 1½% on net income over $2000 from business or wages<br>6% of income from intangibles<br>3% gains from security trading<br>Add: 13% of total tax as emergency tax | | | | Against business income: 2,000<br>1,000<br>Not applicable if total income from all sources exceeds $1000-single; $1500 married | 2,500<br>1,000 | 250 |
| Minnesota | 1% | 1,000 | 20,000 | 10% | 10 | 30 | (3) 5 |
| Mississippi | 1½% | 2,000 | 25,000 | 7% | 1,000 | 2,500 | 400 |
| Missouri | 1% | 1,000 | 9,000 | 4% | 1,000 | 2,000 | 200 |
| (Note that income cannot be segregated into brackets) | | | | | | | |
| Montana | 1%<br>Minimum tax $1.00 | 2,000 | 6,000 | 4% | 1,000 | 2,000 | 300 |
| New Hampshire | Taxes income from intangibles only at a flat rate-varies depending upon taxation rate on general property | | | | | | |
| New Mexico | 1% | 10,000 | 100,000 | 4% | 1,500 | 2,500 | 200 |
| New York | (1) Net income exclusive of capital gains:<br>2% | 1,000 | 9,000 | 7% | 1,000 | 2,500 | 400 |
| | (2) Capital gains are taxed at one half of above rates | | | | | | (1%-3%) |
| North Carolina | 3% | 2,000 | 10,000 | 7% | 1,000 | 2,000 | 200 |
| North Dakota | 1% | 2,000 | 15,000 | 15% | 500 | 1,500 | 200 |
| Oklahoma | 1% | 1,000 | 8,000 | 9% | 850 | 1,700 | 300 |
| Oregon | 2% | 500 | 4,000 | 7% | 800 | 1,500 | 300 |
| South Carolina | 2% | 2,000 | 6,000 | 5% | 1,000 | 1,800 | 200 |
| South Dakota | 1% | 3,000 | 140,000 | 6% | 8 | 20 | (3) 4 |
| Utah | 1% | 1,000 | 4,000 | 5% | 600 | 1,200 | 300 |
| Vermont | Tax rate is:<br>(1) 2% of net income after deducting exemptions<br>(2) 4% of income from stocks, bonds, notes, etc. | | | | 1,000<br>400<br>This exemption is not allowed if -<br>(a) Income from stocks, etc. exceeds:<br>$1500<br>(b) Total net income exceeds:<br>400 | 2,000<br>800<br>3,000<br>800 | 250<br>0<br>0<br>0 |
| Virginia | 1½% | 3,000 | 5,000 | 3% | 1,000 | 2,000 | 200 |
| West Virginia | 1% | 1,000 | 6,000 | 6% | 1,000 | 2,000 | 300 |
| Wisconsin | (1) Normal tax:<br>1% | 1,000 | 12,000 | 7% | 8 (deducted from tax) | 17.50 (deducted from tax) | (3) 4 |
| | (2) Surtax -normal tax after credit for exemptions, less $37.50 divided by 6 | | | | | | |

TABLE V

(1) Reduced by 50% in 1944 (3) Tax deduction (4) Under Annuities and Intangibles
(2) Note that these exemptions apply against the lowest brackets of income
J.K. Lasser, "Your Income Tax," Simon & Shuster, 1944, pp 56-57

one to six per cent is the most commonly used; however, the range between one per cent to four per cent and the range between one and five per cent follow closely.

Three of the states using the flat rate are Massachusetts, Maryland and Vermont. This rate is imposed on different classes of income. Massachusetts taxes salary, wages, other compensation and net business income over $2000 at one and one half per cent; annuities at one and a half per cent also; gains from the sale of intangibles at three per cent; and interest and dividends at six per cent. In 1943 an emergency tax was added to the total tax. Maryland taxes investment income at five per cent, and all other income at two per cent. Vermont uses a flat rate of two per cent on the net income after deducting exemptions; also four per cent on intangibles. New Hampshire also imposes a flat rate, but on intangibles only. The rate varies, depending upon the taxation rate on general property within the state. (1)

3. Income Brackets

The above minimum rates are applied by the States to different income groups. The $1000 is the most common minimum bracket which is used by eight states at one per cent. The $2000 and $3000 minimum bracket is also used at this low rate. California sets its minimum at $5000 at one per cent,

(1) J.K. Lasser, "Your Income Tax," Simon & Shuster, N.Y., 1944, p. 56-67

while New Mexico set the highest bracket of all at $10,000 at one per cent also. However, Oregon applies a two per cent minimum to $500, the lowest bracket of all, while it progresses to seven per cent.

There is no common practice in setting up the amounts for the net income brackets. The lowest maximum bracket is $4000, set up by Oregon at seven per cent and by Utah and Iowa as well, but at five per cent. The remainder range from $5000 to $140,000 with maximum rates ranging from four to fifteen per cent. There are only three steps in the Delaware progression, while there are 14 in Wisconsin. The latter state's first step is $1000 at 1%; the next 11 steps are at the following rates: 1¼%, 1½%, 2%, 2½%, 3%, 3½%, 4%, 4½%, 5%, 5½%, and 6%; and the step over $12,000 at 7%.

b. Diversity of Exemptions

The purpose of the exemption is to allow sufficient for the taxpayer's minimum subsistence. However, there has been a tendency recently to lower the exemptions to include all classes to arouse their interest in government.

Although there is no uniform amount for exemptions and deductions for family allowances, all states permit them. Fifty per cent of the states allow personal exemptions of $1000 for single persons, while less than fifteen per cent allow $1500. The remainder are below $1000 and range from $400 to $850. Alabama allows the highest exemption, $3000,

for a married person and it is the only state to exceed $2500. Utah allows $1200, the lowest for the same status. Thirty-three per cent of the states allow $2500 for a married person, while less than 25 per cent allow $2000. The remainder range from $800 to $1500. (1)

A group of midwestern states allow a credit against the computed tax instead of exempting a specified amount of income. These states are Arizona, Iowa, Minnesota, South Dakota, and Wisconsin. $10 is the usual credit allowed to a single person; $20, to a married person; and $4 for each dependent is allowed by 60 per cent of these states. The exemption and family deduction are subtracted from the net income to determine taxable income.

c. Diversity of Dependents Allowance

The minimum of $200 is allowed by 22 per cent of the states, while Massachusetts and Vermont, without progression rates allow $250.

An allowance of $300 is given by 19 per cent of the states and the maximum allowance of $400 is allowed by 28 per cent of the states. Furthermore, 16 per cent of the states allow deductions from the tax instead of the amount of the income.

(1) J.K. Lasser, op.cit., p. 56-57

4. Diversity of dividends and capital gains

There are differences of opinion as to the propriety of taxing dividends, since double taxation exists when the corporation net income and its distribution of income or dividends are both taxable.

South Carolina, Colorado and Oregon impose surtaxes on dividends, claiming the stock on which the dividend is paid has not been taxed.

Wisconsin uses a "privilege dividend" tax which is payable by the corporation at the time the dividends are declared and deduction made from distribution.

There are also variances in regard to the treatment of capital gains which are the excess of the amount received over the cost of the property from the sale of intangibles. The problem is whether they are taxable as a part of ordinary net income or on a separate basis. At the 1939 Conference of the National Tax Association there was no concensus of opinion as to the treatment of capital gains. (1) Only three states followed the Federal Income Tax and considered only a part of the gains and losses from capital transactions, depending upon the number of years an asset is held, but the Federal government changed its percentages and Oklahoma was the only state which amended its law to conform to the federal practice in 1941.

(1) Blakey & Johnson, op.cit. p.12-13

5. Divergent Systems

New York and Massachusetts income tax systems are divergent. Bases diversity is shown where the former imposes a general income tax on residents and non-residents for income secured within that state. Massachusetts imposes a classified tax on salary, wages, other compensation, and business income from own business; annuities; gains from the purchase or sale of intangible property; and interest and dividends.

The deductible expenses from business income allowed by New York are similar to those of Massachusetts, but the former differs from the latter by allowing a deduction for gifts to charity and realized capital losses.

Massachusetts allows a $2000 exemption for both a single person and for both husband and wife; $500 for spouse; and $250 for children under 18 years, or over, if physically and mentally deficient. However, New York allows only $1000 for a single person and $2500 for a married person or head of a family and $400 under the same conditions as Massachusetts. A $1000 exemption is allowed by Massachusetts against interest and dividends and annuities, not applicable if the total income exceeds $1000 or if married $1500.

New York uses the progressive rate: the minimum is 2% on $1000 and the maximum 7% on $9000 and over, while Massachusetts imposes a different flat rate for each classification.

## E. Plan for Standard Tax Systems

In state taxation discussions, the National Tax Association which is composed of state tax commissioners, other tax officers, and tax attorneys, assumed leadership.

A committee was appointed to prepare a Model Plan for state taxation in 1919; this plan was revised in 1933. Its objective was to ascertain one best tax system which all the states might employ and set up as an accepted standard pattern. In the opinion of the Committee, the only method of reconciling the conflicting claims of the state is the adoption of a diversified system of taxation which recognizes the three fundamental principles in the tax laws of the states as follows: "Every person having taxable ability should pay some sort of a direct personal tax to the government under which he is domiciled and from which he receives the personal benefits that governments confer.

"The second principle is that tangible property should be taxed by the jurisdiction in which it is located because it there receives protection and other government benefits and services.

"The third principle, is that business carried on for profit in any locality should be taxed for the benefits it receives." (1)

(1) R. A. Girard, op. cit., p.53
(2) R. A. Girard, op. cit., p.29

Considering these principles, the Committee proposed that state tax systems adopt them.

Through this plan proper classification of taxation would be secured, while intangibles would be removed from the property tax and taxed under the personal tax.

1. Personal Income Tax

The Committee recommended that all states adopt a personal net income tax by which every person having taxable ability should pay a direct tax to the state where he is domiciled and from which he receives personal benefits; also, that this tax should be levied upon residents and not non-residents of a state upon their entire income from all sources without exception or qualification at a uniform rate.

The Committee also recommended that the personal exemptions of the State income tax are too high and should be made as low as possible. It does not approve of exemptions as high as $1200 to $1500 for a single person, $2000 or $2500 for husband and wife and further allowances of $300 to $500 for dependents such as are authorized by some states. It contends that the exemption of low incomes defeats the principle of universality in the income tax. Any state can apply universality by requiring every adult citizen capable of self-support to file a return or statement of his income

(1) See National Tax Association, "Proceedings of Twenty-sixth Annual Conference on Taxation", Columbia, S.C., 1934, p.360-361

even though it be less than the amount exempted from this tax. A charge of $2 as a filing fee would be made. Persons above the amount exempted from the personal income tax should pay the fee, but receive a credit for it against the amount of any tax computed to be due.

a. Rates

The Committee contends that the personal income tax should be levied at progressive rates varying according to the amount of the taxpayer's net income. It suggested 1 per cent as the lowest rate, with a maximum rate of 6 per cent for incomes in the highest brackets. It made a further suggestion that the classes of income to which the rates should apply need not be smaller than $1000 and that the maximum rate should apply to any amount of income exceeding by more than $5000 the authorized exemptions; also, that the rates as nearly as possible be made uniform throughout the several states.

Further, this committee recommends that information at the source should be used where possible in collecting the personal income tax, but collections at the source should be avoided since it places an unwarranted burden on those paying out money. Finally, the tax should be administered by a central authority; a state tax commission or commissioner is the proper agent to administer the tax. (1)

(1) R.A. Girard, op.cit., p.59

From the above recommendations, it can be seen that the personal income tax presents difficulties of its own and is not a perfect tax. Girard says that it "approaches closely the current standards of justice in taxation and at the same time produces important revenue." (1) Furthermore, it is endorsed by the students of taxation as a means of raising part of the revenues of at least of the wealthier states.

(1) R.A. Girard, op.cit., p.61

## III. FEDERAL VERSUS THE STATE INCOME TAX SYSTEM

Both the state and federal governments rely heavily upon the income tax as a source of revenue as shown in Table VI.

Except in custom duties and the property tax, the federal and state governments have constitutionally the same taxing jurisdiction in all important fields of taxation.

In the early part of the twentieth century, the federal government extended its activities to include welfare, education, highways, and protection which necessitated additional sources of revenue. It was at this time, the federal government entered the tax fields of the states. From then on, both forms of government proceeded to impose income taxes without any consideration of the other, and the result was conflicting taxation.

### A. The Elimination of Conflicting Taxation

The 1935 Progress Committee of the Interstate Commission on Conflicting Taxation claims that the centralization of administration of all taxes subject to conflict in the hands of the federal government is the best way to eliminate conflicting taxation. However, it presented three other proposals to obtain its objective as follows: federal credits; segregation; and intergovernmental comity.

(1) Interstate Commission on Conflicting Taxation, "Conflicting Taxation", American Legislators' Association and Council of State Governments, Chicago, Ill., 1935, p.23

FEDERAL AND STATE INCOME TAX REVENUE
(in thousands of dollars)

| Year | State (1) | Federal (2) | Total |
|---|---|---|---|
| 1942 | $249,452 | $3,263,800 | $3,513,252 |
| 1941 | 224,734 | 1,417,655 | 1,642,389 |
| 1940 | 205,979 | 982,017 | 1,187,996 |
| 1939 | 165,011 | 1,028,834 | 1,193,845 |

(1) U.S. Dept. of Commerce, Bureau of Census, "State Finances," U.S. Gov. Ptg. Office, Washington, D.C., 1939-1942
(2) Tax Research Foundation, "Tax Systems of the World," Commercial Clearing House, Inc., Chicago, Ill., Ninth Ed. 1942, p. 321

TABLE VI

1. Centralization

Under the centralization proposal, the federal government would collect the revenue, but would distribute it back to the states through grants-in-aid to the lower governments; state sharing; or state additionals or supplementals which would be added to the federal tax. Under the grants-in-aid method, the excess of the federal revenues would be turned back to the states to subsidize state functions under a considerable degree of federal control.

Under the nationally administered state-shared taxes, duplication and inefficient tax administration could be avoided by forcing the states out of the income tax field. The federal government could control here by making its rates so high that the state income tax would appear unjust and excessive. The revenue from this method could be shared with the states on the basis of the amount contributed by the state. Such an easy method of obtaining revenue would be an incentive for the states to abandon their own income taxes. However, it might be objectionable in that it would require all the states to submit to this method, whether they were willing or not.

This difficulty would be eliminated if the method of state additionals or supplementals were used. In this way, the states could add their own income tax rate to that of the federal rate. Thus, the expense and annoyance of two returns

and the expensive duplication of state income audits would be eliminated. Furthermore, it offers a simple and uniform, as well as convenient basis of taxation. It does not permit the equalization of the resources of the various localities.

2. Federal Credits

Interstate competition and rate cutting would be eliminated by this second proposal of the committee. The amounts paid under the state tax would be offset against the taxpayers' liability under the federal tax up to a specific percentage of the federal tax.

3. Segregation

Those advocating segregation claim conflicting taxation would be eliminated, since there would be a complete separation between the revenue sources of the federal government and those of the states. There are those who do not advise complete segregation, but increased separation of the types of taxes which the federal and state governments might use. In other words, each government must be assigned those types of taxes which it is best fitted to administer. However, this would result in a lack of sufficient revenue for the different levels of governments, while the states would be excluded from the income tax field. During emergencies, there would be a lack of flexibility in the tax systems. (1)

(1) Interstate Commission on Conflicting Taxation, op.cit., p.25.

4. Intergovernmental comity

The last proposal of the Interstate Committee on Conflicting Taxation, is an attempt to secure greater uniformity and fairness in the state taxing laws. Thus, a state will refrain from taxing the citizens of another state if the same treatment is accorded its own citizens.

However, the Interstate Commission claims that there is considerable danger through centralization, since economic groups controlling it, would serve their own interests. Furthermore, that the machinery for operating such a program would be defective. If the distribution basis would be according to the origin of tax payments, the plan would injure the south and western states, since their resources are controlled by the eastern capitalists.

In regards to the credit plan, there are numerous difficulties. The amount of credit would be hard to settle. The amount of credit would have to be approved by Congress, while the succeeding Congress, would withdraw or modify it. However, this plan would result in a unified rate and less federal state conflicts.

By the federal integration plan, the federal government would administer the tax and collect the revenue, and federal centralization would be the result.

Finally, federal coercion of the states would be necessary through congressional action, to eliminate the

conflicting elements between the federal and state governments. For instance, under the federal credit plan, the federal government would direct every state to impose an income tax. Some of the states constitutions would have to be revised to comply with this order.

The prospects of any of the Interstate Commission on Conflicting taxation proposals being adopted are remote, although reciprocity between the states in regard to the non-taxing of each other residents would seem logical.

The Federal government has the better position over the states. Income taxes have been successful since they have become state administered. The states will guard their rights in the taxation field because if the government gets complete control in this field, the result will be a totalarian government.

B. Criticism of the Proposals

However, the Interstate Commission claims that there is considerable danger through centralization, since economic groups controlling it, would serve their own interests. Furthermore, that the machinery for operating such a program would be defective. If the distribution basis would be according to the origin of tax payments, the plan would injure the south and western states, since their resources are exploited by the eastern capitalists.

In regards to the credit plan, there are numerous

difficulties. The amount of credit would be hard to settle. The amount of credit would have to be approved by congress, while the succeeding congress, could withdraw or modify it. However, this plan would result in a unified rate and less federal state conflicts.

By the federal integration plan, the federal government would administer the tax and collect the revenue, and federal centralization would be the result.

Finally, federal coercion of the states would be necessary through Congressional action, to eliminate the conflicting elements between the federal and state governments. For instance, under the federal credit plan, the federal government would direct every state to impose an income tax. Some of the states constitutions would have to be revised to comply with this order. Under a master plan, the federal and state governments could adopt uniform laws as far as their constitution would permit.

The result of decentralized government is tax conflicts which should be removed if the federal government were sole administrator of taxation. However, under such conditions, the state and local self-government would not exist. Without some financial independence, self-government becomes insignificant.

In 1941, the National Tax Association appointed a committee on the Coordination of Federal, State and Local

Taxes. Mr. Henry F. Long, Commissioner of Corporation and Taxation is the chairman of this committee. Up to the present time, the report has not been completed.

C. Solution of Tax Conflicts

Buehler is an agreement with the Interstate Commission in that the income tax should be administered by the federal government to secure coordination. By this method, more effective administration would result, since the income is in some cases of an interstate character. (1)

The advantages under this administration which Buehler lists, are practically the same as those given by the Interstate Commission, such as uniformity in the tax base throughout the nation; the requirement of a single return to the federal government; the avoidance of double taxation, since all the taxpayers would be treated similarly regardless of domicile; and the reduction of administrative expenses, since they would be performed by the federal government only.

If justice and equality are to prevail, he contends that all taxpayers should be taxed on their entire net income, and not particular kinds as in some states. Furthermore, the minimum of subsistence should be national and rationally defined.

The concensus of opinion is that uniform taxation statutes, as well as uniform methods of tax administration would eliminate multiple taxation and interstate competition.

(1) A.G.Buehler, "Public Finance," op.cit., p.26
(2) Interstate Commission on Conflicting Taxation, op.cit.p.26

## IV. MASSACHUSETTS INCOME SYSTEM--HISTORY AND PURPOSE

### A. History

Taxation in Massachusetts originated over 300 years ago in the colonial period. In the beginning, the colonists voluntarily subscribed to the ministry, schools, constables, and other public officers and expense.

As the revenue was inadequate, the General Court took upon itself the power to levy taxes in 1634 when the first general tax law was enacted in the colonies, Capital Laws, A.51,p.1. (1). G.L.21,2 is a revision of this colonial law. (2) By this law, all men were taxed according to their estate; the next year this was explained to mean according to their ability. Thus the ability to pay principle was introduced and today it is the basis of our modern income tax. (3)

Since the estates were small, there was only land, buildings, and cattle to tax. The early land taxes were based on the product rather than the value. (4) The cattle were taxed at fixed amounts for each kind of animal as an ox

(1) City Council of Boston (M.H.Whitmore), "Colonial Laws of Massachusetts" (1660-1672, Rockwell & Churchill, 1889, p.134
(2) General Court of Massachusetts, "Charters and General Laws of the Colony and Province of Massachusetts", T.B. Wait & Co., Boston, 1814, p.
(3) Commonwealth of Massachusetts, "Annual Report of the Commissioner of Corporations and Taxation, 1930
(4) Davis R. Dewey, "Financial History of the United States", Longmans,Green & Co., New York, 1931

of four years and upward at five pounds; bull and cow of four years and upward at three pounds; and a horse and mare of three years, at 10 pounds; the younger cattle were taxed at lower amounts. (1)

1. The Faculty Tax

As a supplement to the property tax, the faculty tax was levied in 1646, Capital Laws,A.57,p.23. (2) and the revision for the colonial period is G.L.c.21,2 (3). It was imposed on the assumed earnings of laborers, tradesmen, and handicraftsmen according to the occupation of the taxpayer; however, on the estates of bakers, butchers, smiths and others it was imposed proportionally to the estates of others, while later it was changed to a levy on the capitalized value of their wages.

The general court experimented with the different forms of taxation after the colony was granted a charter in 1692. The only important change in the statutes was in 1738, St.1738-9c.1, when the income or profit received by a taxpayer from business, employment or money at interest were taxed at the same rate as other personal property. Money lent a corporation through the purchase of its bonds is a type of money at interest; previous to 1738, the capital

(1) City Council of Boston, op.cit., p.134
(2) Ibid, p.134
(3) General Court, op.cit., p.69

value of the bond was taxed, but after this date, only the interest or profit received from such an investment was taxed. (1)

Through the evolution of taxation during the colonial period, there were imposed a poll tax; a real estate tax; and a personal property tax. All of these taxes were imposed under Capital Laws,A.51,p.1 of the Colonial Laws. (2) Under the revised laws, they are taxed under Chapter 21, Section 2 with the exception of poll taxes which are imposed under Section 3. (3) Lastly, there was an earned income tax imposed, Capital Laws, A.57,p.23. (2) which is under the Revised Laws in Chapter 21, Section 2. (3) The present income tax law is established on the same basis subject to certain exceptions and qualifications.

2. Provision for Income Taxation

In 1780, the legislature was given the power by the state constitution to levy proportional and reasonable assessments, rates, and taxes upon persons and property within the Commonwealth. A system of taxation was established which existed during most of the nineteenth century. Under this system, all real and personal estates, were taxed at their

(1) City Council, op.cit., p.134
(2) General Court, op.cit., p.
(3) Philip Nichols, "Taxation in Massachusetts", Financial Publishing Co., Boston, 1922, p.87-88

capital value, and all occupational incomes at their actual amount. Thus the original faculty tax developed to a provision for taxing incomes from a profession, trade or employment in excess of $600; as a compromise with those who were trying to appeal the tax, the exemption was changed to $2000. In the present law, this $2000 is named as the minimum exemption while an additional amount is allowed for a wife and children. (1) (2)

In the early colonial days of this country, the general property tax was the backbone of the fiscal system in the taxation of Massachusetts. (3) Today this local tax still is imposed on real and tangible personal property, while a state administered income tax is imposed on only the income of intangible property since 1916, G.L.,Chapter 62. Originally, the intangible property was taxed under the general property tax. Thus the ability to pay principle is recognized in the taxing of intangible property on its income, instead of its capital value. (1)

3. Adoption of the Income Tax

The early nineteenth century marked the opening of a commercial expansion. The increased number of corporations resulted in an increased amount of intangible personal prop-

(1) Philip Nichols, op.cit., p.463
(2) See page 63
(3) Commonwealth of Massachusetts, op.cit., p.6

erty which was 60 per cent of the state's wealth. (1) Of course, this form of intangible personal property had always been taxed similar to real and tangible personal property on its capital value. This necessitated the taxpayer giving most of his earnings on intangibles for taxes. In 1916, after all attempts to tax intangible personal property through direct local taxation had failed, it became necessary to exempt this class of property from local taxation and tax it through the state administered income tax, G.L.c.62, at the fixed rate of six per cent.

B. Purpose of the Income Tax

Under the general property tax, all personal property was taxable at the domicile of the owner and on its capital value at the same rate as real estate in the town where the taxpayer resided. Although the tax authorities knew of vast amount of intangible personal property, there was no direct way of reaching it for taxation. The owners of this class of property did not make returns since they were not compulsory. The assessors in the cities and towns were unable to ascertain the ownership of intangible property for taxation as it was easily concealed. In order to be taxed at a low rate, the owners of intangible property would claim their summer residence or a low rate town as their legal domi-

(1) Philip Nichols, op.cit. p.429

cile. Their true legal domicile was a large city with a high rate of taxation. About one-fifth of the intangible property in the Commonwealth was subject to taxation; (1) the real estate and personal property owners bore the burden of taxation. Finally, the law required the citizens to make a sworn return, but the majority refused to do so. For personal reasons the assessors did not estimate the value of this property. Even the conscientious taxpayers moved to a low rate town and became tax dodgers; others registered as residents of a low rate town as of April first, accepted a favorable rate and departed.

1. Double Taxation and Evasion

Furthermore, the owners of intangible property contended that taxation on its capital value was unfair and double taxation. The property of the corporation was taxed where it was located and its stock was taxed to the stockholder on its capital value. The result was that the tax amounted to over half of the annual return from the taxpayer's property; everyone avoided the payment of this tax by not declaring its ownership. However, at the death of a taxpayer, the probate records disclosed such ownership.

In the middle of the nineteenth century drastic statutes were enacted to compel the owners of intangible

(1) Philip Nichols, op.cit., p.429

personal property to disclose its ownership to the assessors. The result was unsuccessful as the taxpayers either moved to low rate towns or to states where the rates were lower. (1)

Through experience Massachusetts learned that a uniform property tax including intangible personal property could not be enforced. The taxation system needed reform and the state senate requested the opinion of the Supreme Court as to the constitutionality of imposing a three mill tax on intangible personal property in 1908. However, the Supreme Court ruled against the constitutionality of the proposed statute in 109 Mass. 607 since it violated the requirements of proportionality in taxation. (2)

2. Enactment of the Income Tax

After repeated attempts to tax intangible property at a lower rate than real and personal property, a remedy was available by the adoption of the Forty-fourth Amendment to the state constitution in 1915 authorizing the levy of a tax on incomes. The income tax was enacted on May 26, 1916, G.L.c.62.

Unlike the federal income tax law of 1913, it was not intended for additional revenue or aimed at the wealthier classes; however, it was intended as an equalizer of taxation

(1) Philip Nichols, op.cit., p.429
(2) Income Tax Lectures

and a means of retaining capital within the state. Thus the tax on intangible property was reduced to six per cent on the income from all kinds of intangible property, while previously it was taxed on its capital value at a variable local rate amounting to 30 to 50% of the income.

C. Nature of the Income Tax

The Massachusetts income tax is based on the nature of the income received, as well as the size of the income. An examination of the second basis before considering the first basis, leads to a better understanding of this subject.

1. "Size of the Income" Basis

It is the size of the income in the salary, wages, and business class which determines whether there is an obligation to file a return. If a person has no other income of a taxable nature, and the gross receipts from this class of income is less than $2000, a return is not required. If the entire income from all sources, taxable and non-taxable as in the case of a single person is less than $1000, or in the case of a married person, where the combined income of the husband and wife is less than $1500, there is an exemption from the tax on the interest and dividends, as well as the annuities, of $1000.

The claim for exemption is optional and must be accompanied by a signed statement setting forth the entire net income, taxable and non-taxable. However, this exemption

does not apply to the profits from the sale of intangibles. The tax on such profits must be paid in full even if there is no other income.

a. Effects Upon The Tax

The size of the income effects the tax in three ways. First, it determines who should file a return on salary and business income, when no other income of a tangigle nature is received. Secondly, it provides under certain conditions, an exemption from the tax on interest, dividends, and annuities. Thirdly, it determines the amount of the tax, when the amount of taxable income is known and placed in the proper category according to its nature, and multiplied by the rate of tax for its particular class.

Thus it can be seen that the size of the income is used in the Massachusetts income tax structure as a measure of the amount to pay after the taxability of the income has been decided upon an entirely different basis. It also determines whether a person should file a return of income from salaries or business, since an individual has a statutory exemption of $2000, which applies to such income. Where the income is less than $2000, no return is required.

b. The $1000 Exemption

The so-called $1000 exemption is optional and a statutory provision, which allows an exemption against the first $1000 of income from interest and dividends or an-

nuities. Its purpose is to prevent the individual income from this source being reduced below $1000, while in the case of a married person, below $1500 (combined husband and wife) by the income tax. To be allowed, a detailed statement of every item of income must be signed, as the claim and the statement are made under penalties of perjury.

From the above examination of the ways in which the size of the income effects the filing of the return and the tax itself, can be seen that the size of the income holds a secondary place to the fundamental principle, the nature of the income, except in the calculation of the tax.

2. "Nature of the Income" Basis

The determining factor in the taxability of the income under the Massachusetts income tax law, is the nature of the income. This is so, because the primary purpose for the adoption of the income tax was to relieve the burden on real property which still bears the major portion of the tax.

The background of this effort to enact the income tax as a means to reach intangible personal property and to make it bear a more proportionate part of the tax burden has already been discussed. (1) Here it is shown that tax evasion and double taxation existed previous to the enactment of the income tax.

(1) See p.51

## D. Extent of the Income Tax

Chapter 62 of the General Laws of Massachusetts, and the amendments thereto, is the income tax law. It sets the boundaries for the tax and provides for its enforcement and administration. The provisions of the law derive its sanction from the Forty-fourth Amendment to the Constitution of Massachusetts.

This income tax law extends to every inhabitant of Massachusetts who receives a taxable income. Under the blanket requirement to file returns, its provisions extend to individuals, partnerships, trustees, other fiduciaries, and certain associations with transferrable shares. Under this law, the time is set for filing of returns, as well as the penalty for late filing and fraudulent returns.

### 1. Requirements of the Law

The income tax law provides that notices setting forth the requirements to file returns be posted in each town and city in public places, several months before the final date for filing. It also provides for the assessment and the warranting of the tax to the Collector; besides, the date for the payment of the tax; the manner of payment; and the interest rate to be charged on the taxes after the due date. Furthermore, it provides for the personnel, sufficient for the proper administration of the law; penalties for the disclosure of information on the returns by the personnel to

anyone not entitled to such information; collection of the taxes; and its distribution to the cities and towns.

The taxpayer is required by law to keep proper records of his income which must be available for audit by a properly qualified deputy of the division. In the law is found the legal recourse to compel the taxpayer to produce his records, if he refuses to do so.

The audit of the returns on file and the period of time in which an additional assessment can be legally made is set forth in the law. Further provision is made as to the notices to which the taxpayer is entitled, where an additional assessment is to be imposed and the number of days between notices.

Provisions for the abatement of taxes under certain circumstances and the time to which abatement claims are limited are made by the law under which appeals can be made to the Director or Commissioner of Corporations and Taxation for a hearing. Still further appeal can be made by the taxpayer to the Appellate Tax Board or the Supreme Court.

The above provisions reveal the extent of the law as the requirement of the income tax division have decided it to be. Many of the provisions have been challenged in the Courts and have been upheld. Among these are: Tax Commissioner v. Putnam, 226 Mass.522; Maurice A.Duffy & others, 234 Mass. 42; and George S. Raymer v. Tax Commissioner, 239 Mass. 410.

## V. MASSACHUSETTS INCOME TAX SYSTEM--SPECIFIC PROVISIONS

### A. Development

The Forty-fourth Amendment to the constitution of this commonwealth approved and ratified by the people in 1915, authorized the Massachusetts income tax. It is phrased in the following language:

"Full power and authority are hereby given and granted to the general court to impose and levy a tax on income in the manner hereinafter provided. Such tax may be at different rates upon income derived from different classes of property, but shall be levied at a uniform rate throughout the commonwealth upon incomes derived from the same class of property. The general court may tax income not derived from property at a lower rate than income derived from property, and may grant reasonable exemptions and abatements. Any class of property, the income from which is taxed under the provisions of this article may be exempted from the imposition and levying of the proportional and reasonable assessments, rates, and taxes as at present authorized by the constitution. This article shall not be construed to limit the power of the general court to impose and levy reasonable duties and excises." (1)

(1) "Annual Report of the Commissioner of Corporation and Taxation," Commonwealth of Massachusetts, 1930, Public Document No. 16, p.2

Unlike a general income tax law, the Massachusetts income tax law is a series of special income tax laws. In order to avoid double taxation, income from certain sources is exempt from taxation as rentals from real estate. Although the income tax is limited to taxation of certain classes of income, the amendment is not so limited, since it authorizes the taxation of every class and description of income at any time.

Under this amendment there are certain limitations upon the taxation of income, as the uniformity requirement throughout the state upon incomes derived from the same class of property. For this reason, a graduated income tax, similar to that of the federal government, is prohibited.

1. Income Classifications

Salary, wages, other compensation and business income over $2000 gross income.

Annuities

Gains from the purchase or sale of intangibles

Interest and dividends

An individual return must be filed by an inhabitant of Massachusetts if he received during the prior calendar year any of the above classifications of income.

The income tax law relates to every individual who is an inhabitant of Massachusetts and applies to all taxable income received while such an inhabitant. An inhabitant is

a person whose domicile or legal residence is in Massachusetts. Persons moving into Massachusetts during the taxable year must pay a tax on all income received after acquiring domicile in this state. Persons who intend to remove their domicile from the state at any time during the year are taxable on the income received to the date of departure and must file a return and pay taxes on such income.

a. The salary, wages, and business income class includes all diverse forms of professional and business income and is as varied as the business and professional life of the state. However, this great field of activity, produces about 20 per cent of the total income tax revenue. (1) This is the result of a low rate of taxation and large exemptions and deductions. Once the nature of the income is ruled to be business income (rents excluded), the rate is uniform. The expenses and deductions may vary according to the type of business, and the family status of the taxpayer; however, they determine the amount of net income to be taxed, and not the nature of the income or the rate of tax.

Under the Massachusetts law, it is only from business income that the statutory exemption for self or family can be claimed. It is against this type of income that the federal income tax, social security or state income taxes can be deducted.

(1) See p. 95

(a) Taxable Income

Net income from the operation of a business

Compensation for services

Yearly rental value of living quarters and board or other allowances compensation.

Commissions and fees

Retirement allowances received from the commonwealth, county, city, town or district or from any person (not expressly exempt by statute)

Bonus or payment which is deducted by an employer as an expense on any return

Business income received by an executor, administrator or other fiduciary not subject to taxation in Massachusetts and paid to the taxpayer.

Income received or accrued from any partnership not doing business in Massachusetts

Income from a Massachusetts partnership dissolved or reorganized

Payments received as royalties

Gain from the sale of capital asset (except stock in trade and intangibles)

Amount received as insurance on account

losses of stock in trade by fire, theft or other casualty in excess of loss.

(b) Exemptions

$2000 allowed by law. This exemption is never prorated

Rental of real estate

Mortgage secured exclusively by real estate taxed in Massachusetts and not exceeding the assessed value.

Gift or bequest not contingent upon personal services performed or to be performed.

(c) Deductions

$500 if living with wife or husband during the entire taxable year, otherwise prorated for part of year applicable.

$250 for taxpayer's own children who have not passed their eighteenth birthday and entirely dependent upon taxpayer for support, or over eighteen years of age and incapable of self support because of mental and physical deficiencies. A part of a year would be prorated if child were born during the taxable year.

$250 for the taxpayer's own parents who are entirely dependent upon and supported

by the taxpayer.

Prorate for part of year.

Loss during the year from sale, or by fire, theft, or other casualty (not compensated by insurance) or from payments on claims in law or equity incurred in the business (not compensated by insurance).

Depreciation or obsolescence upon capital assets (tangible property) used in the business. A proration of the cost based on the estimate life of the asset is allowed.

Depletion is allowed only in cases of mining, quarrying or other such enterprises where some natural deposit is being depleted or where the income reported is derived in whole or in part from copyrights or patent rights. Depletion is computed on the estimated life of mine, quarry, etc., or the duration of the copyright or patent. Proration is allowed each year. Losses from accounts receivable determined to be worthless and arising from business subsequent to December 31, 1915. Such losses

must have been actually charged off during the past year as worthless accounts.

5% of the last assessed value of tangible property situated within Massachusetts (less the amount of all mortgages thereon) owned by the taxpayer and used in the business.

All taxes paid within the year to the United States government, county, state, city, town or district with respect to the business.

Allowance for contributions paid by the taxpayer to the United States Social Security Act, Railroad Retirement Act or the Massachusetts Unemployment Insurance Act, as well as the retirement paid by the taxpayer into the state and city retirement funds.

Interest paid on business indebtedness.

The expenses of the business paid within the year (general).

Ordinary repairs of the property owned and used in the business.

b. Annuities, the second classification, are the right to receive by contract, a fixed sum annually during the

life of the taxpayer. It is not based upon the earnings of a fund, and the nature of it is determined by the contract. They are generally received from insurance companies, but it is not unusual to find an annuity contract in payment of a business enterprise. Annuities come within the provision of the so-called $1000 exemption. (1)

Before the enactment of the Income Tax Law, this class of income had been taxed for over 80 years under the general property tax on its capital value at the local rate which averaged about 1.8% according to the residence of the taxpayer. An annuity is the right to receive annually or at other regular intervals, a definite sum of money, contingent upon the taxpayer's continued life and chargeable against a person or corporation and not restricted to the proceeds of a fund. (2)

(a) Taxable Income

Annuities given by a will are not exempt from taxation on the ground that it is a legacy.

Proceeds of an insurance fund payable to a designated beneficiary in fixed annual amounts during his life.

Charge or condition attached to a gift or devise providing for the annual payment

(1) See p.
(2) Philip Nichols, op.cit., p.

to the donee or devisee of a fixed sum to a third person.

(b) Exemptions

Payments made yearly or in fractional parts of a year by Massachusetts executors or trustees according to the provisions of wills or deeds of trust.

Payments made to beneficiaries under the insurance policies if the beneficiaries had elected to receive these payments in installments.

Annuities from Massachusetts Savings Bank Life Insurance Retirement allowances or pensions paid for past services, expressly exempt by statute.

Pensions granted by the United States government.

Alimony is not taxable as an annuity.

Payments of a fixed sum annually from the income of any particular property by an executor, administrator or trustee.

Schedule H applies to this class of income where the taxpayer's total income from all sources, both taxable and non-taxable does not exceed one thousand dollars and the combined income of husband and wife during taxable year from all sources, both taxable and non-taxable, does not exceed $1500.

c. Net gains from the purchase or sale of intangible personal property

In the third income class are gains from the sales and purchases of intangibles. The nature of the gains is the sole test, while the size of the income from this source, has no bearing as to the requirement to file. There is no exemption from this tax; the amount of the gain must be re-reported and the tax paid regardless of the amount of income.

In order to reach the First World War profits from speculation, this class of income was taxed under the income tax law. The opposition claimed this tax was unconstitutional because capital was increased through buying and selling securities. However, the court ruled that this class of income was to be included under the Forty-fourth Amendment, but it is taxed at a lower rate than intangible personal property.

Only actual gains and losses are reported for taxation. All amounts received as winnings from lottery drawings are included under this class after deducting the cost of the lottery ticket..

(a) Taxable income

Total amount received from the sale of rights.

The amount received in the exchange of stocks and bonds for other property.

(a) Taxable income (continued)

The gain realized at maturity on bonds or notes purchased below par. This applies to calls also. Net gains from purchases or sale of stocks, bonds, securities or other intangible personal property paid to the taxpayer by an executor, administrator, trustee or other fiduciary outside the State. Amount received for goodwill from the sale of a business.

Gain from the selling of stock dividends. Amounts received as winnings from lottery drawings, sweepstakes and the like.

d. Interest and dividends

Previous to the enactment of the income tax law, this class of property was taxed locally on its capital value; at present it is taxed under state administration on its income.

Income is received when paid in cash or check or when credited by a bank, broker, agent or upon a running account. All interest received must be reported by the taxpayer; debit and credit interest

cannot be offset, but must be reported.

It is in this class that the problem of liquidating dividends presents itself. Under the Massachusetts law,no distribution of capital can be taxed; therefore, when a corporation liquidates, the stockholder is entitled to receive the entire par value or stated value of his stock without paying a tax. However, if he receives more than the par or stated value, the excess is taxable as a dividend. The cost to the taxpayer of the liquidated stock has nothing to do with determining the nature of the income received.

In none of the various types of income, except possibly the profit from the sale of securities, does the problem of deciding the taxable nature of income present such difficulties. When interest is paid to a broker; or on a collateral loan; or on a note not secured by real or tangible personal property; or on life insurance policies, a deduction will be allowed from taxable interest or dividends in the proportion that the taxable interest and dividends reported in

Schedule F up to 80 per cent of the taxable interest and dividends. The claim is optional, and if made, must include in this schedule, a complete list of all income taxable and not taxable and the amount of interest paid and to whom.

Interest (a) Taxable Income

Interest of every kind received by a taxpayer or credited to his account by a bank, bank institution, individual, firm or corporation.

Interest on the so-called "tax refund bonds".

Any portion of income from a partnership not doing business in Massachusetts which accrued from taxable interest.

Interest received or credited to all accounts in National Banks.

Include interest received or credited to all checking accounts in Trust Companies.

Interest received from mortgage loans secured by real estate in Massachusetts by which the stated amount of the mortgage (plus all prior mortgages) exceeds the last taxed value of the real estate.

Interest received from mortgage loans secured by property situated outside Massachusetts.

(b) Non-taxable Interest:

Bonds or other obligations of the United States .

Bonds, notes and certificates of indebtedness of the Commonwealth of Massachusetts issued since January 1, 1906 and marked Tax Exempt.

Bonds, notes and certificates of indebtedness of counties, cities, towns and districts in Massachusetts issued on or after May 1, 1908 and marked Tax Exempt.

Bonds, notes and certificates of indebtedness which are secured exclusively by recorded mortgage of real estate in Massachusetts which real estate is assessed to the full amount of the bond issue, mortgage note or certificate of indebtedness plus all prior mortgages.

Deposits not exceeding $4,000 (or deposit and accumulated interest not exceeding $8,000) in a savings bank in Massachusetts, and all savings bank deposits in

(b) Non-Taxable Interest (Continued)

Maine, New Hampshire, Vermont and Connecticut.

Deposits in all savings departments (not interest departments) of Massachusetts Trust Companies if within the legal limit and on deposits (not annuities) in a Massachusetts Hospital Life Insurance Company.

Interest from co-operative banks in Massachusetts.

Interest on deposits in the Postal Savings Banks.

Mortgage interest on real estate in this state is not taxable, where the principle of the mortgage does not exceed the assessed valuation of the property.

Interest on federal, state, and municipal notes and bonds.

(c) Deduction

The taxpayer, other than one whose sole business is dealing in securities, is allowed a deduction, called the interest deduction (optional).

Interest Deduction:

(1) Taxable interest and dividends less Foreign Fiduciaries / Total income including taxable and non-taxable (interest and dividends and rents from real estate) X Amount of interest paid by the taxpayer upon indebtedness, omitting-
(1) Interest on such indebtedness as was secured by mortgage or pledge of real estate or tangible personal property.
(2) The interest on indebtedness for which the taxpayer is entitled to claim deductions from business income.

(2) 80% of the total taxable interest and dividends less interest and dividends received from any fiduciary not subject to taxation in Massachusetts.

The lesser amount, either (1) or (2) is deducted from the total taxable interest and dividends and the result is the taxable interest and dividends.

Dividends (a) Taxable Income

Dividends paid in cash, in scrip, in government bonds, or if in stock of other corporations are taxable at a fair market value of the property received.

Dividends are taxable on shares in all corporations, joint stock companies, and banking associations organized under the laws of any state of nation.

Dividends credited by a broker to a customer's account, as a part of marginal or other trading, though not paid over, and even though subsequent transactions may result in the entire loss of the credit.

Dividends held in pledge or on margin or otherwise, by an agent or broker as security for a debt of his principal, whether standing in the name of the principal or any other person are taxable to the principal.

Any portion of income from a partnership not doing business in Massachusetts which accrued from taxable dividends.

Dividends received from estates or trusts not subject to taxation to the fiduciary in Massachusetts.

Stock dividends paid in stock of other corporations.

(b) Non-taxable Income

The distribution of capital, whether in liquidation or otherwise, is not taxable as income, but accumulated profits are not regarded as capital. Dividends in reduction of capital and dividends in liquidation of a corpora-

tion, the capital of which has been impaired, are not taxable. If the amount distributed in liquidation is in excess of the par value of the stock, the excess is taxable as a dividend even though the stockholder received less than he paid for the stock.

Dividends on shares of such partnerships, associations and trusts having transferrable shares as have filed an agreement with the Commissioner to pay the tax direct.

Dividends received from co-operative banks, building and loan associations and credit unions chartered in Massachusetts; also, savings and loan associations under the supervision of the commissioner of banks.

So-called dividends upon insurance policies are not taxable as they are merely the return of over-payments of premiums.

(c) Exemption- Schedule H

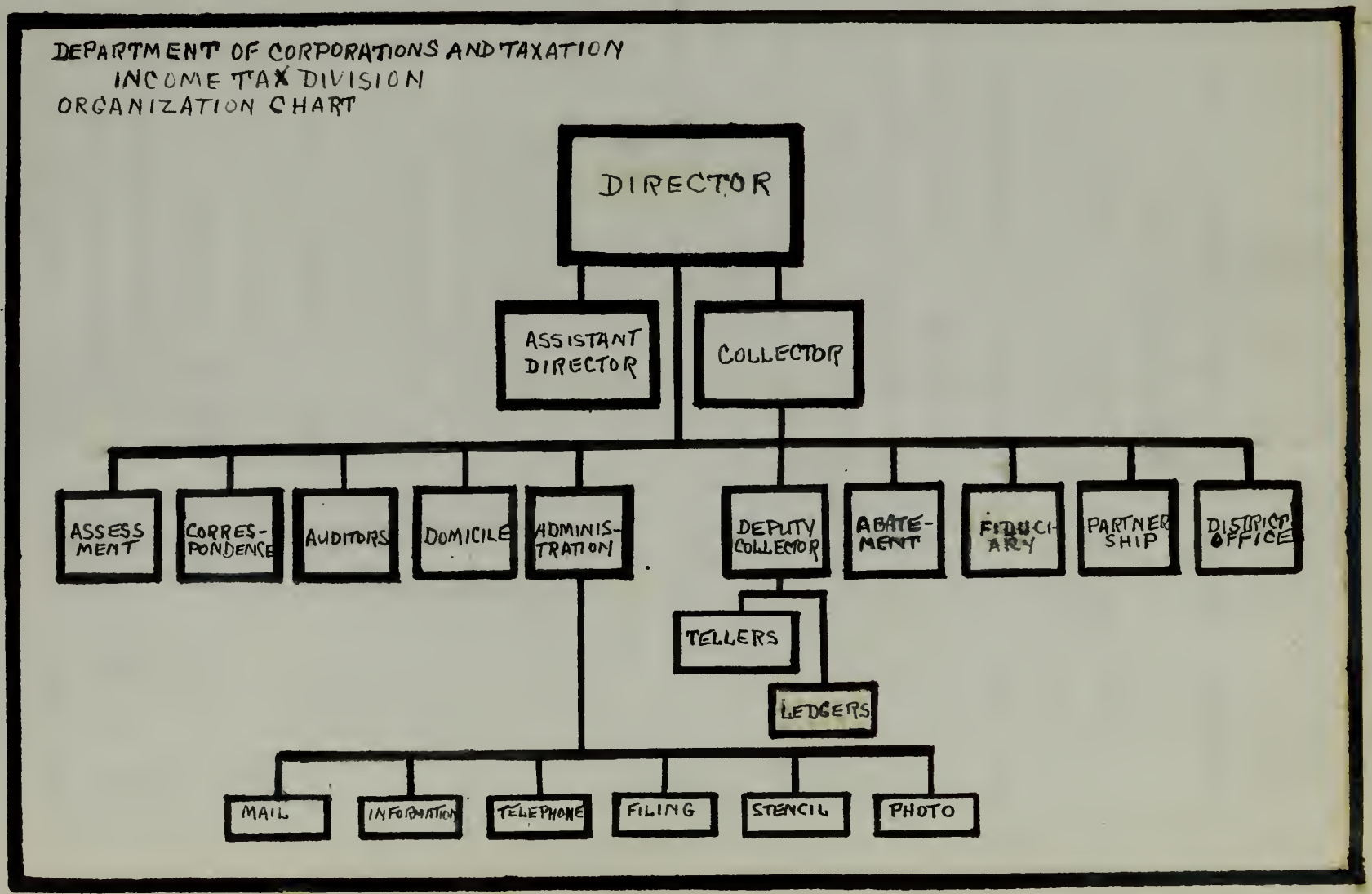
When a taxpayer's total income from all sources, both taxable and non-taxable, during the calendar year being reported, did not exceed $1,000 and the combined income of the taxpayer and wife or husband during the same year from all sources, both taxable and

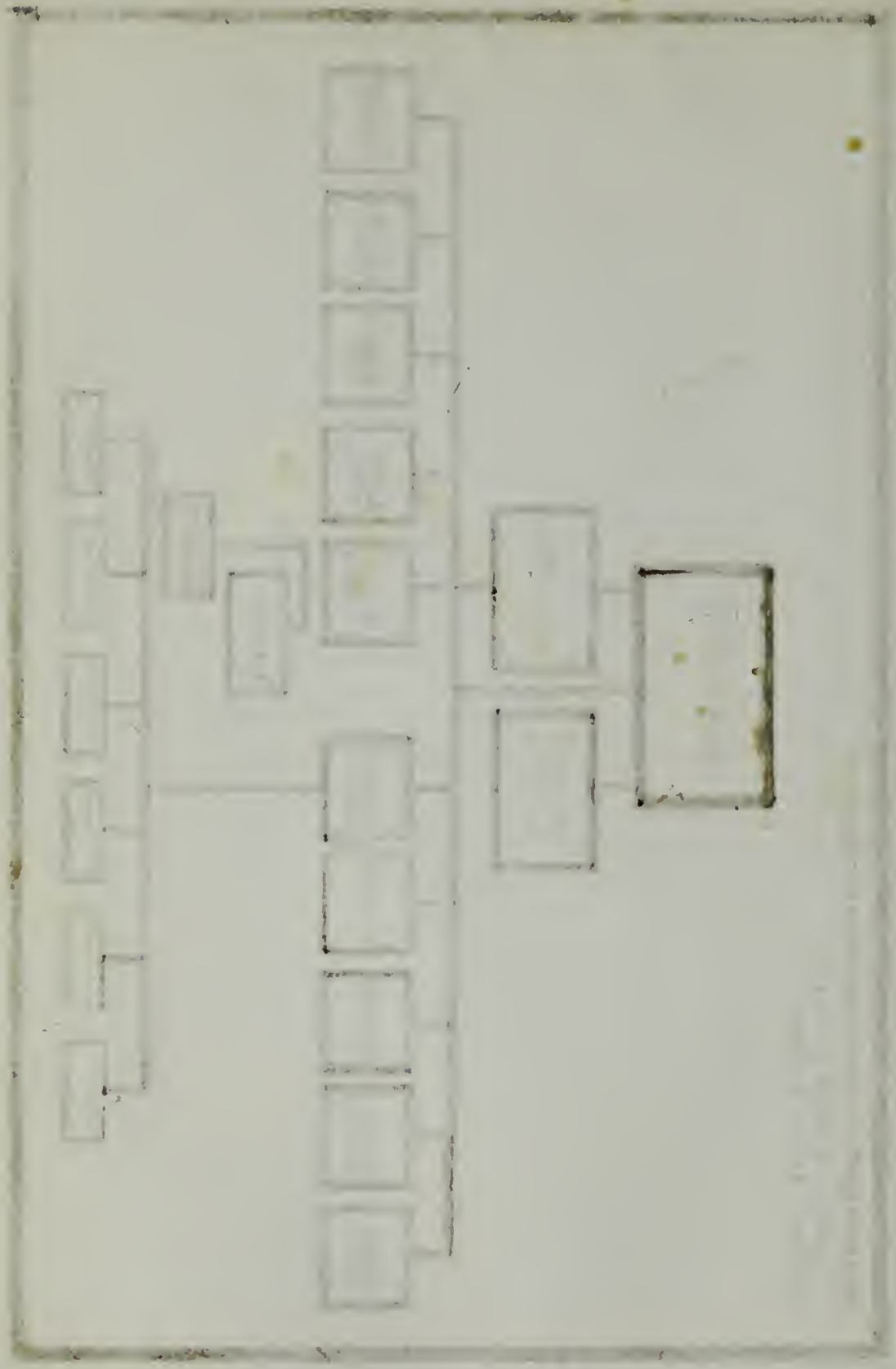
not taxable, did not exceed $1500, an exemption from taxation on income taxable under Schedule C (Annuities and E (Interest and Dividends) is allowable. (1)

2. Rates of Taxation

| Rates | Classes of Income |
|---|---|
| 1½% | Salary, wages and business income (over $2000) |
| 50% | Profit from the taking of real estate by purchase or eminent domain by the state, county, city, or town within one year of its acquisition. |
| 1½% | Annuities |
| 3% | Gains from the purchases or sales of intangible personal property |
| 6% | Taxable interest and dividends |

DEPARTMENT OF CORPORATIONS AND TAXATION
INCOME TAX DIVISION
ORGANIZATION CHART





# VI. MASSACHUSETTS INCOME TAX SYSTEM--ADMINISTRATION

## A. Organization

The Income Tax Division of the Department of Corporations and Taxation is in charge of a Director and an assistant director who supervise the work of 250 employees of the division relative to the assessment of income taxes. The nine distinct sections within the division are administration, individual assessments, fiduciary assessments, partnership assessments, collection of taxes, domicile, auditing, correspondence and abatements. In addition there are nine district offices located in Brockton, Cambridge, Fall River, Fitchburg, Lowell, Pittsfield, Salem, Springfield, and Worcester.

In the nine sections of central office, the functions involve the assessment of individuals, associations, fiduciaries, and partnerships, as well as the billing of the taxes. In these functions are included desk and field audits of returns and the review of applications for abatements on over-assessments and refunds of overpayments.

## B. Functions of the Sections

### 1. Administration Section

Under the supervision of this section are the filing, stencil, information, mail, telephone, and photostat units. The filing record showed there were 579,071 returns indexed for 1942.

This section also receives and reviews requisitions for purchases and keeps a record of the Income Tax Division expenditures.

a. Information at the Source

Since, the income tax division is entrusted with the administration of this law, it requires not only the filing of returns, but, information at the source. By this method, corporations, banking associations, partnerships, associations or trusts must furnish the income tax division with certain information as required by law. Thus, the names of all individuals, residents of Massachusetts, to whom salaries of $2000 or over are paid; as well as interest, dividends, or annuities are reported to the income tax division on special information cards. Where the stock is in the hands of a broker, the name of the actual owner, together with the number of shares, the name of the stock and the dividend paid, will be reported by the broker to the income tax division.

This extension of the law to the sources of information as to taxable income paid to a Massachusetts resident is of great assistance to the division in the administration of the law; it is from this source, that most of the delinquent cases originate.

2. Assessment Sections

The procedure in making assessments is the same for the individuals, fiduciaries, associations and partner-

Form 7E.

1945

THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF CORPORATIONS AND TAXATION
HENRY F. LONG, COMMISSIONER
INCOME TAX DIVISION
40 COURT STREET, BOSTON

**ANNUITY**

TO WHOM PAID
(Print full name)

ADDRESS
(Number, street and town)

The undersigned hereby states that the above named Massachusetts individual was paid an ANNUITY during the calendar year 1944.

SIGNED_____
Rubber stamp may be used.

STREET AND NO.....

$..... CITY OR TOWN.....
Total Amount Paid

Filed in accordance with the provisions of Section 33 of Chapter 62 of the General Laws.

**File with Summary Card on or before March 1, 1945**

70m-(e)-7-44-14751

Annuity General Laws, Chapter 62

Form 7A. **THE COMMONWEALTH OF MASSACHUSETTS**
DEPARTMENT OF CORPORATIONS AND TAXATION
HENRY F. LONG, COMMISSIONER
INCOME TAX DIVISION
40 COURT STREET, BOSTON

**INTEREST** **1945**

TO WHOM PAID
(Print full name)

ADDRESS
(Number, street and town)

The undersigned hereby states that the above named Massachusetts individual was paid interest upon bonds, notes or other evidences of indebtedness issued by the undersigned, during the calendar year 1944. (Do Not Report Corporations or Banks to which interest was paid.)

BY WHOM PAID _____
(Rubber stamp may be used.)

STREET AND NO.....

$..... CITY OR TOWN.....
Total Amount Paid

Filed in accordance with the provisions of Section 33 of Chapter 62 of the General Laws.
**File with Summary Card on or before March 1, 1945**

85m-(c)-7-44-14751

Interest-General Laws, Chapter 62

Form 7C.

THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF CORPORATIONS AND TAXATION
HENRY F. LONG, COMMISSIONER
INCOME TAX DIVISION
40 COURT STREET, BOSTON

**STOCKHOLDER** **1945**

FULL NAME
(Print full name)

ADDRESS
(Number, street and town)

The undersigned hereby states that the above named Massachusetts individual was, on December 31, 1944 the holder of.....shares of the †..... stock in the undersigned organization, upon which were paid dividends during the calendar year 1944 to the amount of $.....per share.

SIGNED _____
Rubber stamp may be used.

STREET AND NO.....

CITY OR TOWN.....

Filed in accordance with the provisions of Section 33 of Chapter 62 of the General Laws.

† Insert description.—"common," "preferred," "1st preferred," etc.

**FILE WITH SUMMARY CARD ON OR BEFORE MARCH 1, 1945**

1500m-(d)-7-44-14751

Stockholder--General Laws, Chapter 62

Form 6A.

THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF CORPORATIONS AND TAXATION
HENRY F. LONG, COMMISSIONER
INCOME TAX DIVISION
40 COURT STREET, BOSTON

**SALARY OR OTHER COMPENSATION** **1945**

TO WHOM PAID
(Print full name)

ADDRESS
(Number, street and town)

The undersigned hereby states that the above named individual resident in Massachusetts was paid or credited with wages, salary or other compensation in excess of $2,000 during the calendar year 1944. Filed in accordance with the provisions of Section 33 of Chapter 62 of the General Laws.

BY WHOM PAID_____
Rubber stamp may be used.

$.....
Total Amount Paid

STREET and NO.....

CITY or TOWN.....

**FILE WITH SUMMARY CARD ON OR BEFORE MARCH 1, 1945**

1500m-(b)-7-44-14751

Salary or Other Compensation--General Laws, Chapter 62

ship returns.

The returns of income are assessed to the taxpayers as filed with the Income Tax Division. If during assessment the clerk has information at the source or any other reason to believe that the taxpayer's income is in excess of the amount reported, the return is referred to the Correspondence Section. In this way the taxpayer is notified of discrepancy and given an opportunity to explain the difference.

The division is not bound to accept the taxpayer's figures if it is not satisfied that they are correct and may assess the return upon the evidence that the department has on hand. The taxpayer may apply for an abatement within six months after the assessment date, if he feels that he has been over assessed.

All returns received during the year are assessed by September 1 so the taxpayer will have the thirty days required by law in which to pay the balance of his tax.

3. Auditing

Any return may be verified by an auditor or district office assessor within two years before September first. For this purpose, the books and papers of the taxpayer shall be open to the examining officer of the Income Tax Division, or shall be produced upon a summons which the Commissioner or the examining officer may issue.

a. Fundamental Auditing Requirement

The most important angle of the income tax auditing is the law. Experience in auditing discloses that a thorough knowledge of the law and the regulations which interpret the law, is a fundamental requirement for the most satisfactory results in auditing. The tax is based upon the income tax law which must be thoroughly understood to make a complete audit.

The taxpayer's errors in figuring his tax is a minor part of the additional taxes secured through auditing, while misinterpretation of the law by the taxpayer, or his agent, produces the major portion of the additional taxes. The last is due to the mistakes usually found in the border-cases where the border line of the Federal law is mistaken at times for that of the state. It is essential to make a thorough examination of the original record and have a thorough knowledge of the law in order to make a complete audit and identify such items as taxable income.

The auditor's work sheet should contain any information necessary for future reference; unusual items of a doubtful nature and all the circumstances surrounding it.

b. Outstanding Audits

In regards to the income tax law, the following incomes were found in the borderland through auditing: dividends in liquidation; the costs of securities sold and ex-

changed; the sale of a business reporting on a cash basis; dividends claimed to be paid out of capital; income from foreign fiduciaries; dividends paid in notes or in kind; trust income where the remaindermen are non-taxable charitable institutions; annuities from the earnings of trust funds when an education institution is the remainderman; insurance premiums paid as part of a salary agreement.

To further illustrate this point, a few cases are listed here:

1. A Massachusetts corporation was in the process of liquidation during 1940 and 1941 and paid taxable dividends in liquidation both years. The stock was rather closely held by the officials of one of the most efficient business organizations in the country. Yet the audit of the returns of these officials showed that not one reported the dividend in liquidation correctly, since the excess they received over the par value of the stock was taxable as a dividend. Over 30 returns were in error because of the failure of those who filed the returns to know the income tax law.

2. A number of years a resident of Massachusetts left in trust with one of our educational institutions over $100,000. This sum was to be held in trust, invested and reinvested, and the entire income paid over to his wife for her life. At her death, the principal of the trust was to go to the educational institution.

The trustee treated the payment to the beneficiary as an annuity and sent in an information card to the division for several years, reporting the payments as an annuity. In the audit of the beneficiary's return, it was noticed that the annuity was exceptionally large and the auditor sought the origin of the annuity. The accounting firm procured a copy of the will which established the trust. An examination of the will showed conclusively that the income from the trust fund should be taxed at six per cent. After a conference with the bursar of the college returns were produced from the trust and a payment of the six per cent tax on the income from the trust. The bursar said that they had not understood the law.

3. For several years, a taxpayer claimed as interest paid out in Schedule F, interest paid on a Federal tax deficiency. The auditor disallowed the claim as contrary to law. After some discussion as to the nature of the debt, the taxpayer agreed to the additional assessment. He had the correct information available in a tax service, but he decided upon his interpretation of the word "debt" without consulting the income tax law or rulings of the department.

The above cases prove conclusively that the auditor cannot take for granted a complete knowledge of the law on the part of the taxpayer; he must know the law and audit accordingly.

4. Collection Section

All taxes assessed by the Department of Corporations and Taxation are collected by the Collection Section of the Income Tax Division, except the payments which were made at the district offices.

Chapter 350, Act of 1933 requires one half of the tax due to be paid when the return is filed and the other half on the following October first.

Returns are assessed and bills mailed to the taxpayers by September first of the year in which the return is due. This gives the taxpayer 30 days from the date of the bill to pay the second half of the tax due on October first. After assessment, bills for the tax due amount are certified to the Collector of the Income Tax on a warrant for collection and then charged on the ledgers.

If the first payment is not made before March 15 of the year in which the return is due to be filed, interest at the rate of one-half per cent per month or major portion thereof, accrues to the date of payment. If the second payment is not paid on the due date, October first, interest at the rate of 6 per cent per annum accrues on the unpaid balance. If after 15 days or a reasonable length of time, the tax remains unpaid, a demand notice is sent to the taxpayer and he is given 14 days to make payment of the tax due. Then if payment is not made, a warrant is issued and given

to a constable or authorized officer for service of collection. This warrant calls for the seizing of the taxpayer's goods other than those used in the household. If no goods are available for seizure and the taxpayer is unable to make a payment, the officer serving the warrant may commit him to the jail in the county where he is located. Here the taxpayer must remain until all fees and charges are paid.

Before taking the taxpayer to jail, he is first given the right to furnish an authorized bond which must provide for payment within 30 days the tax due and charges, After he is committed to jail, he may ask the jailer to release him for supplementary proceedings in the poor debtor court. The officer who commits the taxpayer to jail must furnish the jailer with the taxpayer's support at the rate of $1.75 per week. If the officer does not do this, the jailer may release the taxpayer immediately.

d. Distribution of Taxes

Under Chapter 62, the amount collected by the Income Tax Division is distributed by the Treasurer of the Commonwealth annually after deductions have been made for the division's administrative expenses; a sufficient sum for educational purposes and annual abatements under this chapter. The remainder is distributed to the cities and towns to reduce the tax on real estate and tangible personal property.

In 1943, the total Income tax collections amounted

to $24,615,360.58; the 13% additional tax is figured on the total tax. 13 percent of this additional tax was distributed to General Fund and three per cent to old age assistance. 21 per cent of the normal tax was distributed for school purposes; 75 per cent, to the cities and towns; while three per cent was applied to the administrative expenses of the division.

5. The Correspondence Section

By personal interviews and correspondence, returns are obtained from delinquent taxpayers. If a taxpayer does not file a return when requested to do so, this section imposes an estimate or double tax.

6. Abatement Section

This section reviews all the applications and claims for abatements. These cases originate mostly during the assessment and filing periods; others are received from taxpayers in the district offices and are sent to this section for completion.

7. The Domicile Section

All claims for non-residence in Massachusetts are reviewed by this section whose responsibility it is to decide whether the taxpayer's legal residence is Massachusetts or elsewhere.

8. District Offices

The functions of the district offices are similar

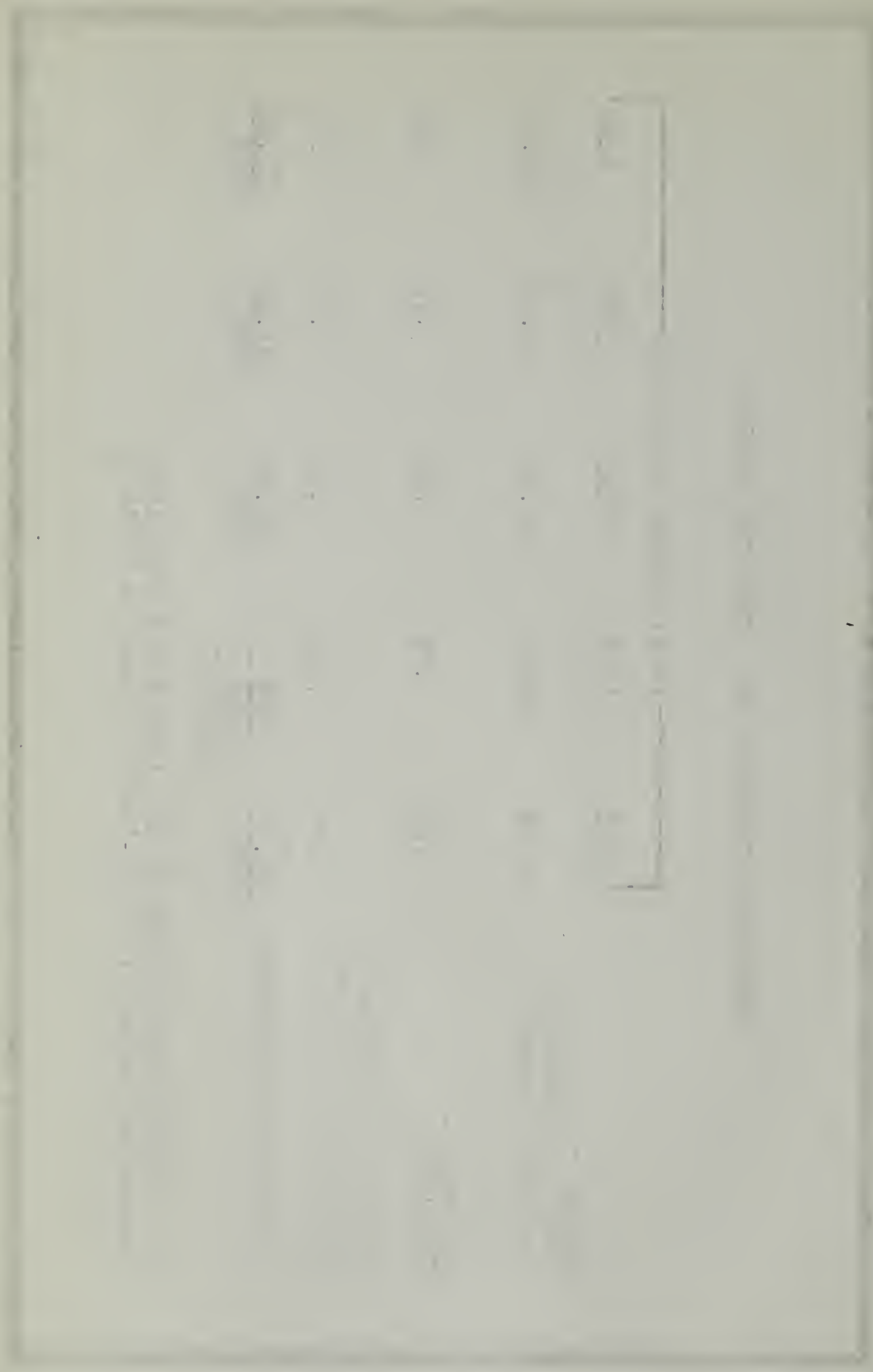
to those of the central office. Their purpose is to facilitate the filing of returns by the taxpayers in the districts; they also assist in the collection of payments and conduct field audits. During the filing period between January first and March first annually, the personnel in the district office set up temporary offices in several municipalities throughout their respective districts.

PERCENTAGE SCHEDULE OF INCOME TAX LEVIES

| | Total Normal Income Tax | | | | |
|---|---|---|---|---|---|
| | 1943 | 1942 | 1941 | 1940 | 1939 |
| Earned - Salary, wages and Business Income | 26.2% | 25.2% | 20.4% | 20.8% | 26.4% |
| Unearned - Annuities | .8% | .8% | .8% | .7% | .8% |
| Gains from purchases and sales of intangibles | 1.9% | .2% | 3.6% | 4.6% | 2.7% |
| Interest and Dividends | 71.1% | 72% | 75.2% | 73.9% | 70.1% |
| | 100% | 100% | 100% | 100% | 100% |

TABLE VII

(1) Collection Records of the Income Tax Division Revenue Collected for 1939-1942 is shown in Table II



# VII. A CASE STUDY OF 500 INDIVIDUAL INCOME TAX RETURNS

## A. The Study

For this study the writer, without a preference, removed and checked 500 consecutive 1942 assessed returns from the alphabetically-numerically arranged files of the Massachusetts Income Tax Division.

This study is a cross section of the whole income tax structure which gives a better understanding of the make-up of the total income from this sample. It reflects the revenue possibilities of the different classes of income and their relative importance.

The following facts were found by the writer:

In Table VII, it can be seen that the net income of unearned income is three times as large as that of earned income. The net income from the interest and dividend classification is the largest and it is 70 per cent of the total net income. The annuities has the lowest net income, two per cent, while the gains from the sales or purchases of intangibles is only one per cent higher. Thus it can be seen that the unearned income section equals 75 per cent of the total net incomes.

### 1. Item Frequency

An analysis of Table IX, the Frequency Table, shows that there are 626 different income items reported in the

SUMMARY AND CLASS PERCENTAGES OF TOTAL INCOME IN CASE STUDY

| | | | Per cent of Total Net Income |
|---|---|---|---|
| Earned Income | | | |
| Salary, wages, etc. | $111,129.41 | | 20% |
| Business income | 25,327.08 | | 5% |
| Total | | $136,456.49 | |
| Unearned Income | | | |
| Annuities | 10,372.13 | | 2% |
| Gains from purchases and sales of intangibles | 14,426.51 | | 3% |
| Interest and dividends | 383,831.52 | | 70% |
| Total | | $408,630.16 | 100% |
| Total Net Income | | $545,086.65 | |

TABLE VIII

## FREQUENCY TABLE IN CASE STUDY

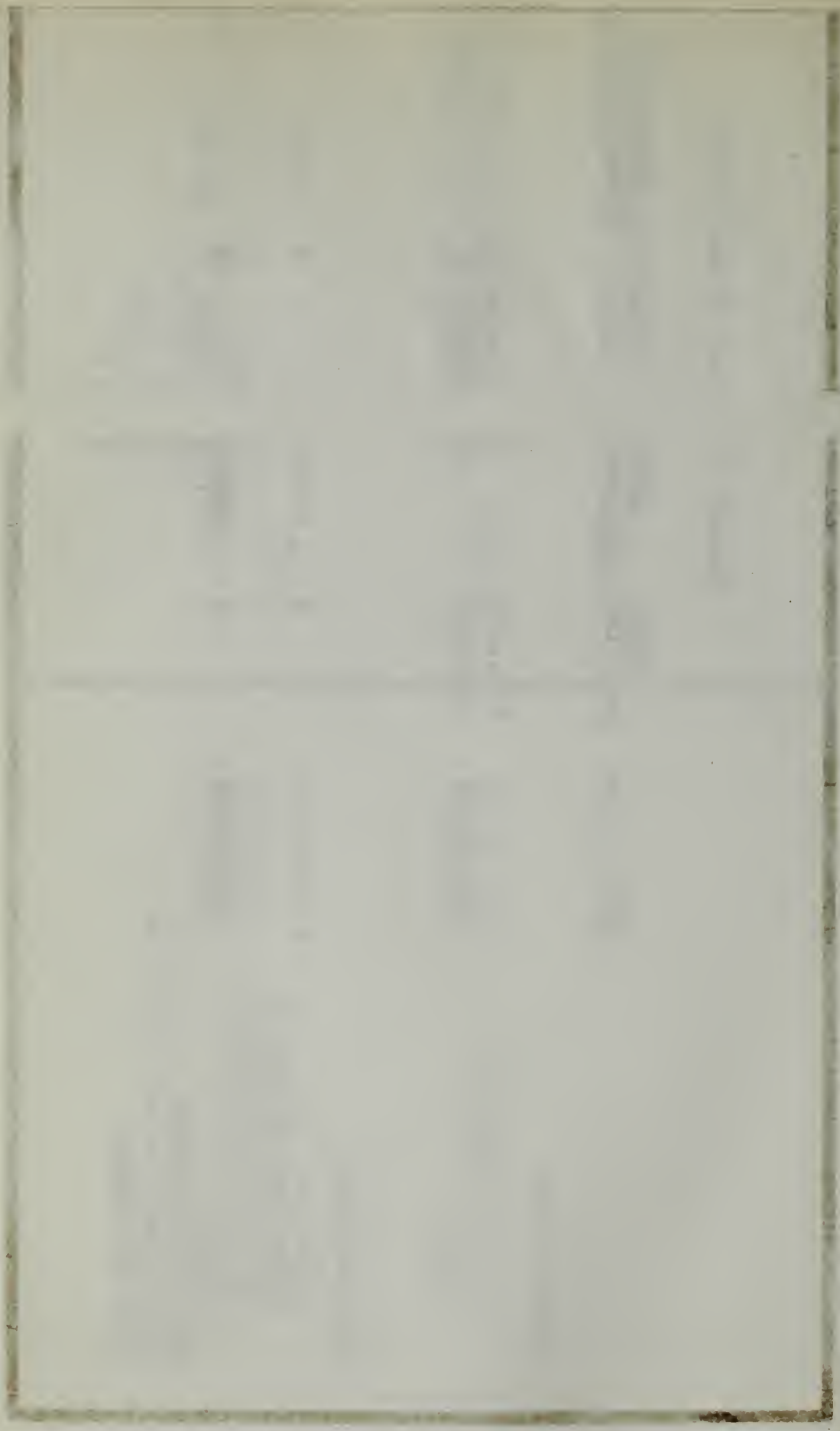
Income Table

| Earned | | | | Unearned | | | |
|---|---|---|---|---|---|---|---|
| Salary & Wages | Owner of Business | Total | FREQUENCY | Interest & Dividends | Annuities | Gains | Total |
| 6 | 0 | 6 | 0- $100 | 90 | 4 | 32 | 126 |
| 1 | 5 | 6 | $100- 150 | 14 | 1 | 2 | 17 |
| 1 | 3 | 4 | 150- 300 | 30 | 3 | 7 | 40 |
| 1 | 3 | 4 | 300- 400 | 13 | 1 | 4 | 18 |
| 0 | 3 | 3 | 400- 500 | 8 | 2 | 0 | 10 |
| 0 | 3 | 3 | 500- 600 | 7 | 0 | 2 | 9 |
| 0 | 2 | 2 | 600- 700 | 4 | 1 | 0 | 5 |
| 0 | 0 | 0 | 700- 800 | 4 | 1 | 0 | 5 |
| 0 | 1 | 1 | 800- 900 | 1 | 0 | 0 | 1 |
| 1 | 2 | 3 | 900- 1000 | 4 | 1 | 0 | 5 |
| 8 | 15 | 23 | 1000- 2000 | 21 | 4 | 2 | 27 |
| 165 | 6 | 171 | 2000- 3000 | 9 | 0 | 0 | 9 |
| 52 | 14 | 66 | 3000- 4000 | 3 | 1 | 0 | 4 |
| 13 | 2 | 15 | 4000- 5000 | 2 | 0 | 0 | 2 |
| 15 | 3 | 18 | 5000-10000 | 10 | 0 | 1 | 11 |
| 3 | 1 | 4 | 10000-25000 | 4 | 0 | 0 | 4 |
| 0 | 0 | 0 | 25000-50000 | 2 | 0 | 0 | 2 |
| 0 | 1 | 1 | 50000-90000 | 1 | 0 | 0 | 1 |
| Total 266 | 64 | 330 | TABLE IX | 227 | 19 | 50 | 296 |

## MAKE-UP OF INCOME IN CASE STUDY

| | Gross Income | $2000 Exemption | $1000 Exemption | Family Deductions | Taxes & Social Security | Total Exemptions & Deductions | Net Income | Average |
|---|---|---|---|---|---|---|---|---|
| **Earned Income** | | | | | | | | |
| Salary, wages, etc. | $798,789.08 | $532,000 | 0 | $149,633.67 | $6,026 | $687,659.67 | $111,129.41 | $417.78 |
| Business income | 175,445.25 | 128,000 | 0 | 20,104.17 | 2,014 | 150,118.17 | 25,327.08 | 395.74 |
| Total | 974,234.33 | 660,000 | 0 | 169,737.84 | 8,040 | $837,777.84 | $136,456.49 | |
| **Unearned Income** | | | | | | | | |
| Annuities | $ 13,372.13 | 0 | $3,000 | 0 | 0 | $3,000 | $ 10,372.13 | 545.90 |
| Gains from purchase & sale of intangibles | 14,426.51 | 0 | 0 | 0 | 0 | | 14,426.51 | 288.53 |
| Interest and dividends | 404,831.52 | 0 | 21,000 | 0 | 0 | 21,000 | 383,831.52 | 1,690.88 |
| Total | $432,630.16 | 0 | $24,000 | 0 | 0 | $24,000 | $545,086.65 | |
| Total Gross Income | | | | | | | $1,406,864.49 | |
| Total Exemptions and Deductions | | | | | | | 861,777.84 | |
| Total Net Income | | | | | | | $545,086.65 | |

TABLE X



500 returns checked by the writer. This is due to the fact that some taxpayers received more than one class of income.

The total earned income items are 53 per cent, while the unearned income items are 47 per cent of the total number of income items reported. The individual classifications show the following percentages of total items: salary, wages and other compensation division combined with that of business income is 53 per cent; the interest and dividends classification, 36 per cent; the annuities class, three per cent; and gains from the purchases or sales of intangibles, 8 per cent.

a. Earned Income

Under earned income, the salary, wages and other compensation class shows 18 taxpayers who reported a gross income less than $2000, the required amount necessitating the filing of an income tax return under this classification. Since these items were reported by the taxpayers in their returns, they have been included in this study.

In the salary, wages, and other compensation division of earned income, the number of income items decreases sharply after the 0-$3000 range as the amounts of the ranges increase. However, there is an exception in the $5000-$10000 range, which shows a 15 per cent increase over the previous range. Then, there are only three items reported in the $10000-$250000 range and none for the remaining ranges up to

the $5000-$90000 range.

Unlike the above division of earned income, the business income division, shows its highest items to be in the $3000-$4000 range. In the remaining ranges, there are not over three items reported and only one in the $50000-$90000 range.

b. Unearned Income

The highest number of items in each class of the unearned income section is found in the lowest range, 0-$100. In the next range, the following decreases are noted: 84 per cent in the interest and dividends classification; 75 per cent in the annuities classification; and 94 per cent in the gains from the purchases or sales of intangibles. However in the next range, $150-$300, each class of income more than doubled itself over the previous range.

There is a decided downward trend from here to the $1000-$2000 range, where the interest and dividends classification increased 400 per cent in items; the annuities, 300 per cent; and gains from the purchases or sales of intangibles, 200 per cent over the previous range.

Another downward trend followed until the $5000-$10000 range is reached, where there is a sharp increase over the previous range of 400 per cent in the interest and dividends classification; no change in the annuities; and a 100 per cent increase in the gains from the purchases or sales of

intangibles. There are sharp decreases from here to the highest range, $50000-$90000, where there is only one item in the interest and dividend classification and none in the other two classifications.

c. Highest Number of Items

The highest number of items is found in the earned income section in the lowest range, $2000-$3000, of the salary, wages, and other compensation division. It is 26 per cent of the total items. Combined with the business income division, it is 27 per cent of the total items. The second highest is found in the unearned income section in the lowest range, 0-$100, of the interest and dividends classification. It is 14 per cent of the total income items. The next highest is found in the $3000-$4000 range of the same section and class as the highest. The next in line, is in the unearned income section in the gains from the sales or purchases of intangibles class and is five per cent of the total items.

d. Lowest Number of Items

In all of the classifications, the lowest number of items is found in the highest ranges of income. The annuities classification shows eight ranges without items between the $500-$600 range and the $50000-$100000 range; the gains from the purchases or sales of intangibles classification shows 11 similar items between the $400-$500

range and the highest range also.

e. Conclusion

In the different classifications, the income ranges increase in amounts as the number of items decrease; thus the highest number of items is found in the lowest ranges of income as shown in Table IX.

Although the earned income section has six per cent more income items than the unearned section, the latter shows 50 per cent more net income than the former as shown in Table VI, The Summary of Total Incomes.

## B. Analysis of Net Income

### 1. Variance

The gross income under earned income exceeds that of unearned income by 125 per cent as shown in Table VIII. However, the net income of the latter, exceeds that of the former by 293 per cent. The reason for this variance is that all taxpayers reporting earned income are allowed a $2000 exemption as well as family and other deductions. A husband and wife must make separate returns under the Massachusetts income tax law, if both have taxable income; however, both can claim the $2000 exemption.

a. Family Deductions

From gross earned income, a taxpayer may deduct $500 for a wife or husband; $250 for his own child, if under 18 years of age and entirely dependent upon him for

PERCENTAGE OF EXEMPTIONS, FAMILY, TAX AND SOCIAL SECURITY DEDUCTIONS TO TOTAL GROSS INCOME BY INCOME CLASSES IN CASE STUDY

Earned Income -

| Income Class | $2000 Exemption | Family Deduction | State, Federal & Social Security | $1000 Exemption | Total |
|---|---|---|---|---|---|
| Salary, wages | 37.8% | 10.6% | .4% | 0 | 48.8% |
| Business income | 9.1% | 1.4% | .2% | 0 | 10.7% |
| Total- Earned | 46.9% | 12.0% | .6% | | 59.5% |
| Unearned Income | | | | | |
| Annuities | 0 | 0 | 0 | .2% | .2% |
| Gains from purchases & sales of intangibles | 0 | 0 | 0 | 0 | 0 |
| Interest and Dividends | 0 | 0 | 0 | 1.5% | 1.5% |
| Total-Unearned | 0 | 0 | 0 | 1.7% | 1.7% |
| Total -Exemptions and Deductions | | | | | 61.2% |
| Total -Net Income | | | | | 38.8% |
| Total Gross Income | | | | | 100.0% |

TABLE XI

support; or, if over 18 years of age and incapable of self-support because of mental or physical deficiencies; also, $250 for the taxpayer's own parents, if entirely dependent upon and supported by him. Where the married status or the support deficiency existed only for a portion of the taxable year, the deductions are prorated accordingly.

b. Deduction of Taxes and Social Security

There is an allowance from business income and salary, wages, and other compensation income for the amount of state and federal taxes paid; there is a further deduction for any contributions paid by the taxpayer under the United States social security.

c. $1000 Exemption

Under unearned income, there is an optional exemption of $1000 against the income from annuities and interest and dividends classification. This exemption is restricted to those taxpayers whose total income from all sources, both taxable and non-taxable during the year, did not exceed $1000; or if the combined income of the taxpayer and spouse during the taxable year, did not exceed $1500. However, there is no exemption or deduction allowed from the gross income received from the purchases or sales of intangibles.

d. Summary

The $2000 exemption under earned income is

45.4 per cent more of gross income than the $1000 exemption under unearned income. The total earned income exemption and deductions allowed are 57.8 per cent more than those allowed under unearned income as shown in Table XIII.

Net income amounted to only 38.8 per cent of the total gross income, while the total exemptions and deductions are 61.2 per cent of gross income, or 22.2 per cent more than the net income total.

## C. Income Levels

### 1. Sources of Income

The earned income is subject to more uncertainty than income derived from the investment of capital. Time, expense, and energy with the subsequent impairment of health entailed, are reflected in the earned income figure. On the other hand, unearned income is secured from the investment of capital without any effort on the part of the taxpayer whose capital remains unimpaired.

In Table XII, it is shown that the amount of investment required to secure unearned income in the three levels is similar in amount to the corresponding earned income levels. For example, the low level for earned income is 0-$2000, while the same level for unearned income is 0-$150; however, an investment, 0-$3000 at five per cent, is necessary to secure the unearned income in this level; therefore, the latter is an income equivalent to the earned income in

## INCOME LEVELS IN CASE STUDY

| Levels | Earned | Unearned | Investments 5% |
|---|---|---|---|
| Low | 0-$3000 | 0- 150 | 0- $3000 |
| Intermediate | $3000-10000 | 150- 500 | $3000- 10000 |
| High | 10000-60000 | 500-90000 | 10000-1800000 |

Frequency of Income Items:

| | Low | | Intermediate | | High | | Total |
|---|---|---|---|---|---|---|---|
| Earned Income | | | | | | | |
| Salary, wages, etc. | 183 | | 80 | | 3 | | 266 |
| Business income | 43 | | 19 | | 2 | | 64 |
| Total | | 226 | | 99 | | 5 | 330 |
| Unearned Income | | | | | | | |
| Annuities | 5 | | 6 | | 8 | | 19 |
| Gains from intangibles | 34 | | 11 | | 5 | | 50 |
| Interest and dividends | 98 | | 56 | | 73 | | 227 |
| Total | | 137 | | 73 | | 86 | 296 |
| Total Frequency | | | | | | | 626 |

TABLE XII

PER CENT OF MAKE-UP BY SALARY LEVEL IN CASE STUDY

| | Levels | | |
|---|---|---|---|
| | Low | Intermediate | High |
| Earned Income: | | | |
| Salary and wages | 91% | 85.4% | 99.8% |
| Business income | 3.1% | 2.1% | 0 |
| Unearned Income: | | | |
| Interest and dividends | 4.3% | 12.4% | .2% |
| Gains from purchase or sale of intangibles | .5% | .1% | 0 |
| Annuities | 1.1% | 0 | 0 |
| Total | 100% | 100% | 100% |

TABLE XIII

the corresponding level, due to the required investment and factors which accompany the securing of this income.

2. Frequency of Items

The items in the income levels of earned income decrease sharply as the amounts in the income levels increase; this is also true of the gains from the purchases and sales of intangibles in unearned income.

In the unearned income section, the number of items in the intermediate level decreases 52 per cent from the low level. In contrast, there is an increase of 25 per cent between the intermediate and high levels in this section.

a. Earned Income Items

Between the low and intermediate levels in the salary, wages and other compensation division of earned income, there is a sharp decrease of 56 per cent in the number of items reported. In the same classification, there is a 95 per cent decrease between the intermediate and high levels.

b. Unearned Income Items

The gains from the purchases or sales of intangibles show a decrease of 68 per cent between the low and the intermediate levels, and a further decrease of 55 per cent between the intermediate and high levels.

The annuities classification shows an increase of 20 per cent between the low and intermediate levels, while there is an increase of 33 1/3 per cent between the inter-

mediate levels and the high levels.

The interest and dividends classification shows a decrease of 51 per cent between the low and intermediate levels, while there is an increase of 41 per cent between the intermediate and high levels.

3. Interest and Dividends Levels

An analysis of the three levels of interest and dividend classification shows that the highest number of items, 98, is reported in the low level. 97 per cent of these items are reported by taxpayers who are in 0-$5000 salary range. Most of the dividends in this level were received by employee stockholders.

In the intermediate level, there are 56 items which are 43 per cent less than the items in the low level. 98 per cent of these items are reported by taxpayers whose salaries are in the 0-$5000 salary range. The remainder, show only gains which represent speculation in the stock market.

In the high level, 73 items are reported by taxpayers, 23 per cent of whom receive salaries or business income; only 5 per cent are over $5000. 45 per cent of the items are reported by taxpayers with no other income, while 32 per cent, received gains which represent speculation in the stock market. Thus 87 per cent of the items in this level were derived from investments of capital which was originally inherited by non-salaried taxpayers.

4. Salary and Business Income Levels

The taxpayers reporting salaries, wages and business income do not ordinarily resort to investments as a source of income as shown in Table XIII.

The total income received by the taxpayers in the low level of salary and business income amounts to $463,208.91. Of this amount, only 5.9 per cent represents other income which includes 4.3 per cent interest and dividends.

## D. Conclusion

The primary purpose of the income tax enactment was to reach intangible personal property for taxation. It had been assessed locally upon its capital value under the general property tax; however tax evasion was prevalent at this time because the tax was on the value no one declared ownership of intangible property to the assessors.

Under the income tax method it is shown in Table VIII that in the cross section of the 1942 returns, the intangible personal property income was 70% of the total net income while it is taxed at the low rate of six per cent. In Table X it is shown that the total gross earned income was more than twice that of unearned income, but the law gives larger exemptions, as well as a deduction for federal tax paid under earned income. This appears logic since there is no time or effort used in securing unearned income.

However, the revenue of the Massachusetts Income tax is distributed to the cities and towns of the Commonwealth after the administration expense and school allowance is deducted. In this manner, there is an effort to equalize between the property tax and non-property tax as the former has always borne the burden of Massachusetts taxation. The fact that evasion does not prevail today, makes the income tax important because of its function.

## VIII. FUTURE OF STATE INCOME TAX SYSTEMS

### A. Under State Control

The income tax has become a permanent part of the fiscal systems of the states because it has been successful in fulfilling the purpose for which it was enacted, that is the taxing of intangible personal property. Originally, this form of property was taxed upon its capital value at the same rate as other property. At present, it is a state administered tax and successful. It has lessened evasion and discontinued the transfer of capital to other states.

The adoption of the personal income tax is recommended by the National Tax Association in its model plan, because it is the proper means of taxing ability, while it is fair in principle. For the success of the income tax law, a strong administration is necessary.

### B. Under Federal Control

The proposal to abandon the taxing powers of the states to the Federal government would be impracticable due to the complexities of the various forms of government.

The allocation of a general Federal tax to the payment of current expenses of all forms of government could be accomplished only by a totalitarian government.

## C. REPORT OF THE SPECIAL COMMISSION ON TAXATION AND PUBLIC EXPENSES

A special unpaid Commission was created under the provisions of Chapter 63 of the General Laws Relating to Taxation and Special Assessments of the Resolves of 1935. This Commission was organized August 25, 1935 to make an investigation and study that part of Governor Curley's inaugural address which referred"to increasing the rate of taxation on income so as to bring it into balance with the increased rate of taxation on income so as to bring it into balance with the increased rate of taxation on real estate." It was to make a "study with respect to any other proposal relative to the taxation of intangibles upon their capital value, or upon the income thereof, or to the taxation of business income, or to the taxation of tangible personal property, or relating to exemptions from property taxes, limiting the rate of taxation of real estate, or relative to any other phase or branch of taxation which in the opinion of the Commission should be given consideration."

The Commission was composed of the Hon. William A. Davenport of Greenfield, Representative Elmer C. Nelson of Milford, Richard F. Paul of Canton, Clarence N. Durant of Lee, Rupert S. Carven of Boston, Raymond F. O'Connell of Springfield and Frank A. Goodwin of Boston. Senator Davenport was elected chairman. It was directed by the legislature to hold

public meetings where all interested parties would be heard. There were 30 of these meetings held throughout the Commonwealth.

Due to lack of time, the Commission could not attempt a complete study of taxation, but gave consideration to the following:

1. Relief to real estate
2. Relief to competitive manufacturing industry
3. Adequately providing for financial requirements of government.

The report of the Commission stated that "the present tax system places a heavier burden on the real estate owner than he can pay with the result that home owning is dis couraged as well as investments in realty. Industries suffered in like manner and many of them transferred to other states which had lower rates of taxation." The Commission "approved of a lower rate of taxation on real estate to encourage the present industry and bring new industry into this state. It realized that in order to relieve real estate from heavy taxation, it would be necessary to substitute other revenue to bear part of the burden, unless governmental costs could be curtailed." However, the Commission was not authorized to deal with the expenditures of the state.

In its effort to find a fairer method of distributing taxation, each section of the statute was checked by the

Commission. The sales tax was the only new tax suggested at the public meetings, however it was not recommended by the Commission because it was unsatisfactory in many states. Finally the Commission prepared a program which would relieve industry and real estate and would not be unfair to anyone. It recommended the non-taxation of machinery used in manufacturing and the levying of the local property tax upon inventories of non-manufacturing corporations. Furthermore, the Commission contended that "the Massachusetts Income Tax had not relieved the taxation on real estate, since it showed good revenue in prosperous times, but greatly diminished revenue in times of depression, when the need is urgent. The result is that real estate must assume the burden of this loss of revenue in times of depression. It is the opinion of the Commission that in all fairness to the distressed property owners in this state, that some part of the tremendous added burden placed on real estate owners should be shared by the income taxpayers. With this thought in mind, the Commission recommended the following changes in the Income Tax Law:

"On incomes from wages, professions, and emplayments, a reduction of the exemption from $2,000 to $1,400 for a single person; with $1,900 exemption for a husband and wife living together; and $250 for each child under eighteen years of age; also providing for a joint exemption where the

husband and wife together earn more than $1,900.

"In connection with the six per cent tax on interest and dividends, the Commission was unable to reach an agreement as to any action for the reason that three members were opposed to any increase in the present rate, and one member favored a tax based upon capital value of intangibles.

"While it is probable that the interest upon existing obligations of the Commonwealth and its political subdivisions cannot be made directly taxable in view of the decision in Macallen Company v. Massachusetts, 279, U.S. 620, it is believed that the present trend of thought against further extension of this field of tax exempt investment is sound. Accordingly, the Commission recommended that the interest of future issues of bonds, notes, and certificates of indebtedness of the Commonwealth and its political subdivision be taxed. While the revenue to be derived from this source will at first be negligible in amount, it will gradually expand.

"Under the existing tax laws, securities which produce income in the form of interest or dividends are taxable upon the amount received. There is, however, a substantial amount of invested wealth which escapes taxation for the reason that no income is received from such investment. In order that the owners of this class of wealth bear some

share the burden of taxation, the Commission recommended that a tax of $2 per $1000 be levied upon the value of such securities."

The Commission also recommended that a new section in the income tax law providing for the taxing as an inhabitant, any person who is domiciled in the Commonwealth, or who maintained a place of abode within Massachusetts, and spends in the aggregate six months of the calendar year within the state. This would allow the Commissioner to tax these persons who live in Massachusetts, but claim a domicile in another state, where the tax laws are more favorable to their particu- status.

"The Legislature of 1933 voted to tax dividends of domestic corporations and utilities at the rate of six per cent for a period of three years. This provision has been extended to the present time. The Committee saw no reason why there should be any difference in the manner of taxing dividends of corporations and therefore recommended that this provision be contained and made a permanent part of the law." (1)

The above report is intended as an example of the problem confronting Massachusetts, as well as all other states, in their efforts to relieve property taxation. The Commission claims that the income tax does not relieve property taxation

(1) Commonwealth of Massachusetts, "Report of the Special Commission on Taxation and Public Expenditures" Chap.3,Resolves 1937

during depressions; however, all other taxes decrease during the same period. This is the result of economic conditions rather than the fault of income tax administration.

The recommendation of the Commission that exemptions be lowered has been tried by some of the states, but at present it could not be adopted since the Federal tax is so high. However, Massachusetts allows the highest exemption, $2000 for all persons when applied against salary, wages or business income. Its adoption in this state would give additional taxes, especially if it were applied to single and married persons at different amounts as in the Federal tax.

The recommendation for the taxation of state and municipal bonds and notes could be adopted by all the states for additional revenue. In Massachusetts, the trend has been to gradually discontinue all exemptions of intangible property from taxation, although they were allowed in the original income tax law.

Regardless of the success of the states in securing additional revenue through the income tax, they will be unsuccessful in equalizing taxation unless the states and the Federal governments curtail their expenditures which are directly responsible for high property taxation.

Form 1

1945 Revision

# 1945

## THE COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF CORPORATIONS AND TAXATION—INCOME TAX DIVISION

Henry F. Long, Commissioner

## INCOME TAX RETURN (INDIVIDUAL)

No. .....

OK .....

CA .....

NC .....

SC .....

RECEIVED

PLEASE FILE YOUR RETURN ON THE EARLIEST POSSIBLE DATE

USE THE FORM BEARING YOUR STENCILED NAME AND NUMBER UPON WHICH TO FILE YOUR RETURN.

INSURING ACCURACY IN NAME AND ADDRESS

RETURN MUST BE SIGNED

ASSESSMENT STAMP

VERIFICATION STAMP

PENALTY FOR LATE FILING

PLEASE DO NOT WRITE ABOVE THIS LINE EXCEPT TO COMPLETE OR CORRECT STENCILED NAME AND ADDRESS

### Return of Income received during the Year ending December 31, 1944.

NAME OF TAXPAYER (FULL NAME) ..... (PRINT LAST NAME)

HOME ADDRESS, ST. AND NO. ..... CITY OR TOWN OF .....

PRINCIPAL OCCUPATION .....

IF EMPLOYED, BY WHOM .....

BUSINESS ADDRESS, ST. AND NO. ..... CITY OR TOWN OF .....

IF MARRIED, NAME OF WIFE OR HUSBAND ..... HUSBAND and WIFE cannot make joint returns.

ADDRESS OF SAME, ST. AND NO. ..... CITY OR TOWN OF .....

DID YOU MAKE STATE RETURN IN 1943? ..... 1944? ..... FROM WHAT ADDRESS? ST. AND NO. .....

If answer is "no" for EITHER YEAR, enclose a return or explain below or by letter why no return was filed.

CITY OR TOWN OF .....

1943 ..... 1944 .....

## CLAIM FOR FAMILY DEDUCTIONS FROM SALARY OR OTHER BUSINESS INCOME

IF NOT FULLY CLAIMED ON ANOTHER RETURN

| | DOLLARS | CTS. |
|---|---|---|
| A. I claim deduction from "business" income for my wife or husband . . . . . ($500) | $ | |
| B. I claim deduction from "business" income for my own children under eighteen years of age, and entirely dependent upon me for support, or over eighteen years of age and incapable of self support because of mental or physical deficiencies. | | |
| NAMES OF MY OWN CHILDREN — DATE OF BIRTH — NAMES OF MY OWN CHILDREN — DATE OF BIRTH | | |
| ..... ..... ..... ..... | | |
| ..... ..... ..... ..... | | |
| ..... ..... ..... ..... | | |
| $250 for each | $ | |
| C. I claim deduction for my own father or mother, who is entirely dependent upon me for support. | | |
| NAME OF PARENT (no deduction for wife's or husband's parent) — ADDRESS | | |
| ..... ..... | | |
| ..... ..... | | |
| $250 for each | $ | |
| D. Total of above claims. Include in Item 3 or 20b on page 2 . . . . . | $ | |

Note—Unless above information is given in full the claim for family deductions will be disallowed without further notice.

If it is your desire to have any and all matters connected with this return taken up with your employer, attorney or accountant, insert here name and address of the person whom you so authorize and to whom the contents of this return may be disclosed.

Name of person authorized:

Address:

The name and address MUST BE WRITTEN BY THE TAXPAYER

### READ CAREFULLY

I hereby state that this return made or carefully examined by me, contains, to the best of my knowledge and belief, a true and complete statement of all the taxable income called for by the various items herein, which I have received during the year above stated; that the information given herein is true and complete; that I am entitled under Chapter 62 of the General Laws, as amended, to all of the deductions and exemptions which are claimed herein; and that all supporting statements herewith included are true and complete.

**This statement is made under the penalties of perjury.**

Signed this .....day of .....1945.

TAXPAYER'S SIGNATURE _____

First Name — Middle Initial — Last Name

### Complete AS SOON AS POSSIBLE, AFTER JANUARY 1, 1945 and Transmit this Return to the INCOME TAX ASSESSOR IN YOUR DISTRICT

The Return may be Filed with the Income Tax Director, 2nd Floor, Scollay Building, 40 Court Street, Boston.

**Under the law this Return Must be Filed On or Before March 1, 1945 to Avoid Penalty**

2350m-7-44-14721-1a.

1945 RETURNS CANNOT BE ACCEPTED AS COMPLETE UNLESS EVERY

## SCHEDULE A. INCOME FROM SALARY, WAGES, AND OTHER COMPENSATION.

INCOME SHOULD BE REPORTED IN SCHEDULE B IF DEDUCTIBLE EXPENSES ARE CLAIMED

| | | Dollars | Cts. |
|---|---|---|---|
| ITEM 1. | Gross amount of salary, wages, fees, commissions, royalties, compensation and pensions received | | |
| ITEM 2. | Total amount of business income accrued or received as a partner in a partnership not doing business in Massachusetts, and from Massachusetts partnerships dissolved during the year | | |
| | DEDUCTIONS:— Total of Items 1 and 2 | | |
| ITEM 3. | $2,000 exempt by law plus the family deductions claimed on page 1. | | |
| ITEM 4. | That portion of Mass. Income Tax paid last year on this class of income only, | | |
| ITEM 5. | That portion of Federal Tax paid last year on this class of income only, | | |
| ITEM 5A. | Amounts paid under the Social Security and Employment Security Acts | | |
| ITEM 5B. | Amount paid as dues, only, to a labor union | | |
| ITEM 6. | Total deductions (add Items 3, 4, 5, 5A and 5B). These deductions must not be duplicated in Schedule B | | |
| ITEM 7. | Net taxable income. Subtract Item 6 from total of Items 1 and 2 | | |

## SCHEDULE B. OTHER BUSINESS INCOME FROM YOUR OWN BUSINESS. (NOT PARTNERSHIP—See Items 2 and 36)

| Item | Expenses | Dollars | Cts. |
|---|---|---|---|
| | NOTE—If Returning on CASH BASIS report actual cash payments only. | | |
| 13 | Merchandise at beginning of year (Inventory) | | |
| 14 | Merchandise bought during the year | | |
| 15 | General Expenses of the Business | | |
| | (a) Employees' wages (omit own salary) | | |
| | (b) Fuel, light and power | | |
| | (c) Rentals (property used in the business) | | |
| | (d) Ordinary Repairs | | |
| | (e) Insurance (relating to the business only) | | |
| | (f) Taxes (relating to the business only) | | |
| | (1) Mass. Income Tax | | |
| | (2) Federal Tax | | |
| | (3) City or Town Taxes | | |
| | (4) Social and Employment Security | | |
| | (g) Interest (on debts of the business only) | | |
| | (h) Freight and Express | | |
| | (i) Advertising | | |
| | (j) Telephone and Telegraph | | |
| | (k) Other expenses | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| 16 | Total (carry to item 16, 2nd Column) | | |

| Item | Income | Dollars | Cts. |
|---|---|---|---|
| | Cash Basis | | |
| 8 | Total Cash Receipts (not included in Item 1) | | |
| | Accrual Basis | | |
| 9 | Total Sales and Miscellaneous Receipts | | |
| 10 | Gains from Sale of Capital Assets (including sales of real estate) | | |
| 11 | Merchandise at end of year (Inventory) | | |
| 12 | Total | | |
| 16 | Expenses (copy Total from Item 16 in 1st Column) | | |
| 17 | Balance of Income | | |
| 18 | Claims for additional deductions (sum of Items 18a and 18b) | | |
| 19 | Net Income | | |
| 20 | Claims for Statutory exemptions and deductions (sum of items 20a and 20b) | | |
| 21 | Net taxable Income | | |
| 10a | Profit realized by the taking of real estate by purchase or eminent domain by the State or County, City or Town, within one year of its acquisition | | |

**Estimated Return Will Not Be Accepted**
**SUFFICIENT BUSINESS RECORDS MUST BE KEPT FROM WHICH TO MAKE ACCURATE RETURNS**

### DEDUCTION CLAIMS

ITEM 18a. Losses during the year of capital assets, NOT STOCK IN TRADE, from depreciation, obsolescence, depletion, sale, fire, theft or other casualty (not compensated by insurance) or from payments on claims in law or equity incurred in the business (not compensated by insurance).

Details of Claims for Depreciation or Obsolescence: must be given in full.

| Description of Property Depreciated | % Used in the Business | Rate % of Depreciation | Date of Purchase | Cost | Depreciation Claimed | |
|---|---|---|---|---|---|---|
| | | | | | Total, previous years | This Year |
| | | | | | | |
| | | | | | | |
| | | | | | | |

| | Dollars | Cts. |
|---|---|---|
| Total Depreciation claimed this year | | |

Details of Other Claims: (Losses from sale of intangible property are not deductible—See Schedule D)

| Description of Property Lost or Sold | Cause of Loss Fire, Sale, Theft, etc. | Cost or Jan. 1, 1916 Fair Cash Value | Depreciation Previously Allowable | Insurance, Sale Price or Salvage Value | Loss Claimed |
|---|---|---|---|---|---|
| | | | | | |
| | | | | | |

| | Dollars | Cts. |
|---|---|---|
| Total of Other Claims | | |

ITEM 18b. (This Item only for Persons returning on accrual basis.) Losses from accounts receivable determined to be worthless and actually charged off during the year. (Accounts must have been included as income in this or a previous return, and must have arisen since December 31, 1915.)

| | Dollars | Cts. |
|---|---|---|
| Total of Items 18a and 18b (carry into Item 18 above) | | |

ITEM 20a. Claim for five per cent of last assessed value of tangible property situated within Massachusetts (less amount of all mortgages thereon) owned by me and used in the business above returned.

| Description of Property Owned and Used in the Business | Last Assessed Value | Mortgaged for | Equity |
|---|---|---|---|
| Real Estate located at | | | |
| Personal Property at | | | |

| | Dollars | Cts. |
|---|---|---|
| Five per cent of total equity | | |

ITEM 20b. Deduct balance of $2,000 exemption plus family deductions not claimed elsewhere [include balance of "D", page 1 not deducted in Item 3 or in any other return]

| | Dollars | Cts. |
|---|---|---|
| Total of Items 20a and 20b (carry into Item 20 above) | | |

**SUPPLEMENTARY STATEMENTS:** (Must be answered by ALL who use Schedule B)

A. Do you keep books of account?.....
B. Amount of profit as shown by Profit and Loss Account for the year above reported.....
C. Attach statement reconciling profit and loss account with amount shown in Item 19.



1945 ITEM IS ANSWERED WITH FIGURES OR WITH THE WORD "NONE"

## SCHEDULE C. ANNUITIES

| | | Dollars | Cts. |
|---|---|---|---|
| ITEM 22. | Income received during the year from taxable annuities. From whom received..... (In case of doubt, report the income and attach memorandum explaining in full the source of the income) | | |

## SCHEDULE D. NET GAINS FROM PURCHASES OR SALES OF STOCKS, BONDS, SECURITIES, AND ALL OTHER INTANGIBLE PERSONAL PROPERTY

| | | Dollars | Cts. |
|---|---|---|---|
| ITEM 23. | Total amount received from all sales or exchanges of stocks, bonds, securities and all other intangible personal property during the year, including sale of "rights" | | |
| ITEM 24. | Cost of the property the sale of which you report in Item 23 | | |
| ITEM 25. | Net gains from sales or exchanges (subtract Item 24 from Item 23) NOTE: If this schedule is used the totals must be given even though a loss is shown. | | |

## SCHEDULE E. INTEREST AND DIVIDENDS

| | | Dollars | Cts. |
|---|---|---|---|
| ITEM 26. | INTEREST taxable and received during the year from bonds, refunds on bonds, notes and certificates of indebtedness; on deposits in national banks, trust companies and other depositaries; and from all other money at interest, loans and debts, including certain mortgages | | |
| ITEM 27. | DIVIDENDS paid in cash or scrip and received during the year on shares in all corporations, joint stock companies and banking associations, organized under the laws of any state or nation, and from transferable shares of partnerships, associations or trusts, domestic or foreign, whose dividends are taxable | | |
| ITEM 28. | DIVIDENDS paid in shares of stock, other than stock dividends paid in new stock of the company issuing the same, or in other securities and received during the year from corporations, joint stock companies, banking associations, partnerships, associations or trusts whose cash dividends are taxable | | |
| ITEM 29. | INTEREST OR DIVIDENDS taxable and received by an executor, administrator, trustee or other fiduciary not subject to taxation in Massachusetts and paid to me during the year Name of Fiduciary..... Address..... | | |
| ITEM 30. | ALL DIVIDENDS received during the year from corporations or other organizations whose ordinary dividends are taxable, and claimed to be a distribution of capital. No. of Shares | | |
| ITEM 31. | OTHER INTEREST OR DIVIDENDS received during the year, concerning the taxation of which the taxpayer is in doubt, and which he submits for such taxation as is proper under the law:— No. of Shares or Bonds — Interest — Dividends | | |
| ITEM 32. | TOTAL (add Items 26 to 29, inclusive) | | |

## SCHEDULE F. INTEREST DEDUCTION—OPTIONAL

| | | Dollars | Cts. |
|---|---|---|---|
| | From the following figures the deduction will be computed by the Commissioner of Corporations and Taxation: | | |
| ITEM 33. | Total income received during the year (except from fiduciaries):— | | |
| | (a) From real estate wherever located (Net) | | |
| | (b) From non-taxable stocks and bonds, including non-taxable stock dividends at value when acquired | | |
| | (c) From non-taxable savings bank and trust company "savings department" interest | | |
| | (d) From exempt Massachusetts mortgage interest, co-operative bank and credit union dividends | | |
| | (e) From taxable intangible property (insert sum of Items 26, 27, 28, 30, 31) | | |
| | (f) Total of above | | |
| ITEM 34. | *Amount of interest paid by the taxpayer upon indebtedness, omitting—(1) interest on such indebtedness as was secured by mortgage or pledge of real estate or tangible personal property; and (2) the interest on indebtedness for which the taxpayer is entitled to claim deduction from business income. Attach statement giving names and amounts. *NOTE:—Amounts shown in Item 15 (g) Schedule B are not to be included here. | | |

### COMPUTATION OF TAX—Stenciled Receipt Must Be Used in Making Payment.

ITEM 7. Taxable Salary, Wages and Other Compensation.....

ITEM 21. Other Taxable Business Income.....

Total Taxable Business Income..... Tax at 1½%=.....

ITEM 10a. Profit from taking of Real Estate..... Tax at 50%=.....

ITEM 22. Taxable Annuities..... Tax at 1½%=.....

ITEM 25. Taxable Gains..... Tax at 3%=.....

ITEM 32. Taxable Interest and Dividends.....

Interest Deduction: (to be used only where Item 34 contains figures.)
(ITEM 32 Less 29),..... × (ITEM 34).....=.....
Divide Above Result by Item 33f.....
(ITEM 32 Less ITEM 29),.....80% thereof =.....
Deduct the Lesser of the Two from Item 32.....

Taxable Interest and Dividends..... Tax at 6%=.....

**ADVANCE PAYMENT**

Date.....
Amount.....
☐ Cash ☐ Check ☐ M. O.
Teller.....

MAKE CHECKS PAYABLE TO THE COMMONWEALTH OF MASSACHUSETTS

Total — Normal Tax.....
Additional Taxes, 10% General Fund, 3% OLD AGE TAX=13% of Normal Tax.....
½ Due March 1,..... Total.....
Int. on Deficiency from March 1,.....
Int. on Deficiency from October 1,.....
Penalty (Late filing of return).....
Total Tax.....
Advance Payment ATTACH RECEIPT FORM.....
Balance.....

SIGN NAME ON PAGE 1

## SCHEDULE G. GENERAL QUESTIONS

ITEM 35. If you have during the year received or been credited with any income (not principal) from Massachusetts Executors, Administrators or Trustees of Estates, Guardians, Conservators, Receivers, Trustees, Assignees or other Fiduciaries, list each trust separately below.

| Name of Estate or Person Creating Trust | Name of Fiduciary | Address of Fiduciary |
|---|---|---|
| | | |
| | | |

ITEM 36. If you were during the year a member of, or financially interested in, any partnership, unincorporated business, firm or association, other than those having transferable shares, and whether located in Massachusetts or elsewhere list names below.

| Title of Partnership or Association | Business Address: Street and No. | Business Address: Town or City | Amt. of Exemption Claimed on the Partnership Returns |
|---|---|---|---|
| | | | |
| | | | |

ITEM 37. During the year 1944 did you pay $2,000 as salary, wages or other compensation to any employee residing in Massachusetts?.....
(If so, the law requires a report of the names of such employees on forms which will be supplied upon request.)

The Commissioner of Corporations and Taxation is permitted to examine federal returns and to avoid inquiry it is suggested that items omitted from the state return but included in the federal return be listed below.

Interest, Dividends, Fiduciary Income

.....

.....

.....

.....

## SCHEDULE H. EXEMPTION CLAIM—OPTIONAL

Shown below and made a part hereof, is a detailed statement of every item of income received by me, and also by my wife or husband, during 1944. (Separate statement for each.) If living quarters or board are furnished as a part of compensation, the fair value thereof must be included.

| | SELF | | HUSBAND or WIFE | |
|---|---|---|---|---|
| | Dollars | Cts. | Dollars | Cts. |
| From real estate wherever located (Net) | | | | |
| From non-taxable stocks and bonds including stock dividends at value when acquired | | | | |
| From non-taxable savings bank and trust company "savings department" interest | | | | |
| From non-taxable mortgages | | | | |
| From pensions and annuities | | | | |
| From compensation, value of board and living quarters. Wages, salary and business income. | | | | |
| Profit from buying or selling stocks, bonds or "rights" | | | | |
| Amounts payable to or accumulated for my benefit by any fiduciary | | | | |
| From taxable interest or dividends | | | | |
| From all other sources | | | | |
| Total | | | | |
| If married, fill in both columns<br>Total, Husband and Wife | | | | |

Does your wife or husband file a return?.....

Claim will be disallowed unless schedule is complete and signed.

I hereby state that my total income from all sources, both taxable and non-taxable, during the calendar year 1944 herein reported did not exceed one thousand dollars and that the combined income of myself and my wife or husband during the said year from all sources, both taxable and non-taxable, did not exceed fifteen hundred dollars, and I therefore claim exemption from tax on income taxable under Schedules C (Annuities) and E (Interest and Dividends).

**This schedule, statement and claim is made under the Penalties of perjury.** Taxpayer's signature

A notice is posted in each city and town indicating the time and place when a representative will be present to receive returns and payments and aid taxpayers in making returns. If further information is desired write or telephone to any of the offices listed. It has been found impossible to arrange dates for every municipality, but the endeavor has been to select accessible centers.

| | TEL. |
|---|---|
| **Returns may be filed at the Income Tax office, 40 Court St., Boston** | Laf. 2700 |

### DISTRICT OFFICES

| | |
|---|---|
| SALEM, 12 Masonic Temple, 70 Washington Street | Salem 0210 |
| CAMBRIDGE, Cambridgeport Savings Bank Building, 689 Massachusetts Ave | Tro. 7440 |
| LOWELL, 408 Sun Building, 8 Merrimack Street | Lowell 8171 |
| BROCKTON, Barristers Hall, 231 Main Street | Brockton 4875 |
| FALL RIVER, Buffington Building, 10 Purchase Street | Fall River 5-7163 |
| WORCESTER, 202 Park Building, 507 Main Street | Wor. 2-7696 |
| FITCHBURG, 210 Safety Fund Bank Building, 470 Main Street | Fitch. 1265 |
| SPRINGFIELD, Worthington Building, 196 Worthington Street | Spfd. 7-1424 |
| PITTSFIELD, Farrell-Sweeney Building, 246 North Street | Pitts. 7894 |

The Proceeds of Income Tax are Distributed to the Municipalities and Used by the Assessors to Reduce the Local Tax Rate.

**PLEASE FILE YOUR RETURN ON THE EARLIEST POSSIBLE DATE**

MAKE CHECKS PAYABLE TO THE COMMONWEALTH OF MASSACHUSETTS

Individual Return General Laws, Chapter 62

# BIBLIOGRAPHY

## Books


Blakey & Johnson, "State Income Taxes", Commerce Clearing House, Inc., Chicago, Ill., 1942

Blakey, Roy G., "The State Income Tax", University of Minnesota Press, Minneapolis, Minn., 1925

Buehler, Alfred G., "Public Finance", McGraw-Hill Book Co., Inc., New York and London, 1940

City Council of Boston, "Colonial Laws of Massachusetts, 1660-1672", Rockwell and Churchill, 1889

Fairchild, Furniss & Buck, "Elementary Economics",Macmillan Co., New York, 1936

General Court, "Charters and General Laws of the Colony and Province of Massachusetts Bay", T.B. Wait, Boston, 1814

Girard, R.A., "The Scope for Uniformity in State Tax Systems", J. B. Lyon Co., New York, 1935

Green, W.R., "The Theory and Practice of Modern Taxation", Commerce Clearing House, Inc., Illinois, 1938

Haig, Robert M., "The Public Finances of Post War France", Columbia University Press, New York, 1929

Hicks, Ursula K., "The Finance of British Government, 1920-1936", Oxford University Press, London, 1938

Howard, Mayne S., "Public Finance", Commerce Clearing House, Chicago, 1940

Interstate Commission on Conflicting Taxation, "Conflicting Taxation", American Legislators Association and Council of State Governments, Illinois, 1935

Lasser, J.K., "Your Income Tax", Simon & Schuster, New York, 1944

National Industrial Conference Board, Inc., "State Income Taxes", National Industrial Conference Board, Inc., New York, 1930

Books

Nichols, Philip, "Taxation in Massachusetts", Financial Publishing Co., Boston, Mass., 1938

Peel, Hon. George, "The Economic Policy of France", Mac Millan Co., Ltd., London, 1937

Ratner, Sidney, "American Taxation", W. W. Norton Co., New York, 1942

Schoenfeld, Rudolf E., "Taxation in Germany", U.S. Government Ptg. Office, Washington, D.C., 1924

Seligman, E.R.S., "Essays in Taxation", Mac Millan Co., New York, 1925

Shirras, George Findlay, "The Burden of British Taxation", University Press, New York, 1943

Carl Shoup et al, "Facing the Tax Problem", Twentieth Century Fund, Inc., New York, 1937

Shultz, Wm. J., "American Public Finance", Prentice-Hall, Inc., New York, 1938

Simons, H.C., "Personal Income Taxation", The University of Chicago Press, Chicago,Ill., 1938

Stamp, Sir J., "The Fundamental Principles of Taxation", rev. ed., The Mac Millan Co., New York, 1939

Studenski et al, "Taxation and Public Policy", Richard R. Smith, New York, 1936

Weston, S.F., "The Principles of Justice in Taxation", Columbia University Press, New York, 1903

Business Studies

Denver University, Bureau of Business and Social Research and School of Commerce, Accounts and Finance, "Taxation of Intangibles", No. 97, Vol. 16, No. 2, September 1940

Denver University, Bureau of Business and Social Research and School of Commerce, Accounts and Finance, "State Income Taxation", No. 94, Vol. 15, No. 3, September 1939

Lectures

Income Tax Director, "Annual Income Tax Lectures", Commonwealth of Massachusetts, 1916 - 1943

Periodicals

Haig, Robt. M., "Coordination of Federal & State Revenue Systems", Tax Policy, Vol. 1, No. 4, Feb., 1934, pp. 2-4

Kendrick, M.S., "Ability to Pay Theory of Taxation", American Economic Review, Vol. 29, 1939, pp. 92-101

Kinsman, D.O., "The Income Tax Commonwealths of the United States, American Economic Association, Macmillan, New York, Nov. 1903, Series III, Vol. 14,pp. 1-121

Magill, Roswell, "The Coordination of Federal, State, and Local Tax Systems", Tax Magazine, Vol. 15, No. 4, April 1937, pp. 187-190

Reports

Annual Reports of the Commissioner of Corporation and Taxation, "Income Tax Division", Public Documents of the Commonwealth of Massachusetts, Boston, Mass., 1917-1938

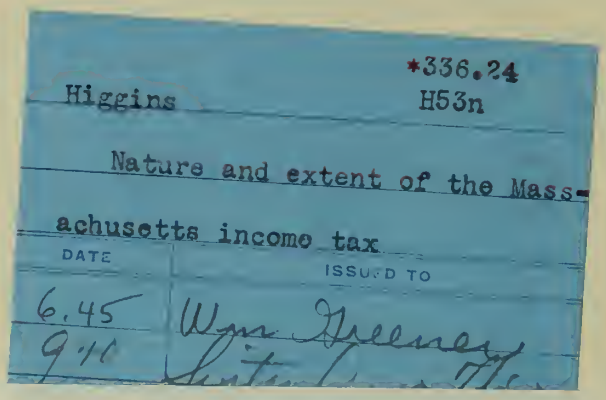
Commerce Clearing House, "State Guide Service", Corporation Trust Co., New York, 1942 and 1943

Tax Research Foundation, "Tax Systems of the World", Commerce Clearing House, 1938 and 1942

United States Department of Commerce, Bureau of Census, "Financial Statistics of the States", U.S. Government Ptg. Office, Washington, D.C., 1939 and 1940

United Department of Commerce, Bureau of Census, "State Finances, U. S. Gov. Ptg. Office, Washington, D. C., 1941 and 1942

*336.24
H53n


*336.24
Higgins
H53n
Nature and extent of the Mass-
achusetts income tax
DATE
ISSUED TO
6.45
9.46

BOSTON UNIVERSITY
1 1719 02482 1672